

# Steel & Style

 '10

MAGNITOGORSK IRON & STEEL WORKS OJSC  
ANNUAL REPORT 2010

Very  
Important  
Person

2000mm  
Cold Rolling  
Mill Facility

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MMK Annual Report 2010



The Magnitogorsk Iron and Steel Works OJSC (MMK) ranks among the world's largest steel producers and is one of the leaders of Russia's steel industry. MMK's share of the Russian steel market is about 17% for crude steel, and 17% for rolled steel products. The Company consists of a large steel producing complex encompassing the entire production chain, from preparation of iron ore to downstream processing of rolled steel. MMK manufactures the broadest range of steel products in the country, with a significant share of value added goods.

This Annual Report has been prepared in accordance with:

1. the legislation of the Russian Federation;
2. generally accepted international standards;
3. the Sustainability Reporting Guidelines of the Global Reporting Initiative(GRI) (application level B, without external confirmation).

The term "OJSC MMK" used in this Annual Report refers to the parent company of the MMK Group, i.e., the Magnitogorsk Iron and Steel Works Open Joint Stock Company. The terms "OJSC MMK Group", "MMK Group", "MMK" and "the Company" refer to the conglomerate of companies comprising OJSC MMK and the companies of the MMK Group.

This Annual Report contains information on OJSC MMK and on the MMK Group of Companies. Since OJSC MMK as a parent company, and a number of other large companies of the Group, exert substantial influence on the performance of the MMK Group, this Annual Report includes, as and when necessary, the information on the activities thereof.



# Opening New Roads for Growth

Products for the Automotive and Construction Sectors



MAGNITOGORSK  
IRON & STEEL  
WORKS

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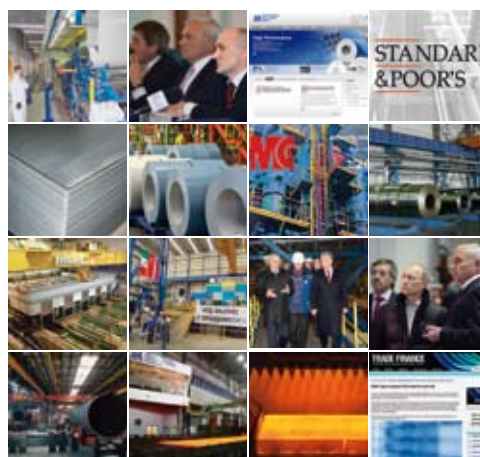
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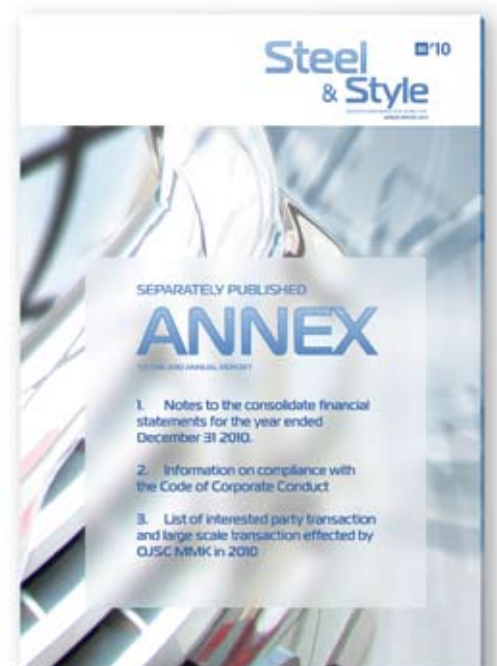
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MAGNITOGORSK  
IRON & STEEL  
WORKS



**2,000 mm**  
Cold Rolling  
Complex

Products for the Automotive Sector

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# ■ Key Results of 2011

Growth of Steel Production In Russia \*

↑ 12%

Growth of Steel Production at MMK

↑ 19%

The MMK Group's results in 2010 met our expectations proving the Group's ability to perform well even under volatile market conditions .

Output of commercial products

**10,402** m tons

2009: 8,797 m tons (+18%)



EBITDA

**USD 1,606** bn

2009: USD 1.309 bn (+23%)



Output of higher value added products

**3,967** m tons

2009: 2.717 m tons (+46%)



Slabs' cash cost

**USD 340** per ton

2009: USD 242 per ton (+40%)



Sales revenue

**USD 7.719** bn

2009: 5.081 bn (+52%)



EBITDA margin

**21%**

2009: 26% (-5%)



Operating income

**USD 610** m

2009: USD 312 m (+96%)



Debt/EBITDA

**2.21**

2009: 1.62 (+0.59)



Profit for the period

**USD 232** m

2009: USD 219 m (+6%)



CAPEX

**USD 2.209** bn

2009: USD 1.613 bn (+37%)



\* Russia's steel production growth year-on-year: Chermet Corporation data

# ■ Statement of the Chairman of the Board of Directors



«In 2010 the MMK Group set up a full-fledged raw materials division»

Victor Rashnikov,  
Chairman of the Board of Directors,  
Magnitogorsk Iron and Steel Works



MAGNITOGORSK  
IRON & STEEL  
WORKS

Dear shareholders, colleagues and partners!  
Throughout 2010 the global steel sector continued to recover from the crisis. The year ended on an optimistic note, with a growth in production levels and a rise in steel prices.

The domestic steel sector has been evolving in tune with the global trends. Market changes have led to positive structural changes in Russia's steel production. Growing domestic steel demand is bound to become one of the factors driving production volumes.

Under these conditions MMK is steadily moving ahead, pursuing a strategy of organic growth. Last year the Company took active efforts to build up its production levels and managed to maintain its leading position in the Russian steel market, with a 17% share of the market. Our focus on the Russian customer proved to be strategically correct: the share of our shipments to the domestic market in 2010 reached 69% of the total sales.

In 2010 MMK produced 11.419 m tons of crude steel, bettering the 2009 result by 19%, and 10.245 m tons of commercial products, 17% up on 2009. This, to a large extent, became possible thanks to diversifying into new lucrative types of products to meet the demand on the

«In 2010 MMK produced 11.419 m tons of steel, 19% more than in 2009»

home market, inter alia, through import substitution. Increasing output of higher value added products is a strategic priority for our Company, and the share of such products in 2010 rose to 34% compared to 27% in 2009. This increase is, first and foremost, attributable to the 5,000 mm Plate Mill reaching its design capacity.

The implementation of a long-term modernization program has enabled MMK to minimize losses associated with the global economic crisis. MMK maintains its focus on raising production efficiency, cutting costs and improving product quality.

In 2010 the Company was able to keep up its high operational and financial performance thanks to a number of steps taken by the management to improve production and sales. The MMK Group's 2010 revenue stands at USD 7.719 bn, with EBITDA at USD 1.606 bn and EBITDA margin at 20.8%.

The Group's capex totaled USD 2.209 bn, an all-time high of the Company's history. One of the key 2010 projects was the completion of the 1st stage of a stamping plant and a steel service centre with an annual processing capacity of 250,000 tons of cold rolled and galvanized steel, near St.Petersburg.

Investments in growth and value added production and focus on products new for the Russian market are certain to improve the Company's competitive ability in the medium and long terms.

We are continuing the implementation of one of our most important projects, the 2,000 mm cold rolling complex which will turn out premium

**«MMK's capex in 2010 totaled USD 1.276 bn for the core business and USD 2.210 bn for the Group, an all-time high for the Company's history»**

quality cold rolled and galvanized strip using state-of-the-art technology. These products will be used to manufacture cars' exterior and interior parts, household appliances and in construction. The total capacity of the complex will be 2 million tons per year, including 700,000 tons of galvanized steel.

One of MMK's top priorities is strengthening its raw materials self-sufficiency. The Company is stepping up production of iron ore at its mining facilities, such as the Sosnovsky Mine, and increasing slag processing: thus, 2010 saw the revamping of the Amcom-1 slag processing unit, and the commissioning of Amcom-2 and Amcom-3 units. MMK's captive production of iron-containing materials covers up to 30% of the Company's total requirement.

Russia and the CIS remain MMK's key sales markets. In 2010 shipments to the domestic market reached 7 million tons, 69% of the total figure. The Company's strong positions on the home market are supported by long-standing relations with such sectors as pipe making and machine building. In mapping its growth strategy MMK closely follows the growth prospects of the Russian economy's key sectors.

Internationally, MMK's focus is on the fast-growing markets of the Middle East, Europe, the Far East and Asia. In 2010 MMK exported 3.2 million tons of its products. To consolidate its presence of the Middle East market,

which is of key importance to MMK, the Company is building a 2.3 mtpy steel making complex in Turkey. In February 2010 MMK commissioned a colour coating line, in April 2010, a hot dip galvanizing line, and in October 2010, a cold rolling mill as part of the project. Also in 2010, the project's Iskenderun site saw the start of operations of a sea port, which is the largest private port in Turkey. The construction of the steel making complex is scheduled for completion in 2011.

**«In 2010 MMK increased its domestic sales by 47%»**

We are pleased to say that in 2010 we laid a solid foundation for the Company's further growth. In 2011 the Company expects to produce 12.6 million tons of commercial products, 23% more than in 2010. This growth will be made possible thanks to increased utilization of the existing capacity and start of production at MMK's steel making facilities in Turkey.

MMK maintains its status of a socially oriented company. In our work we make use of the principles of corporate responsibility, implementing a number of programs dedicated to medical care, labour safety and environment protection.

The results achieved in 2010 were possible thanks to the coordinated effort of our Company's personnel, management's expertise and support from our partners and shareholders.



Victor Rashnikov,  
Chairman of the Board of Directors,  
Magnitogorsk Iron and Steel Works

# ■ Highlights of 2010 and 2011

## 2010



### JANUARY

A 200,000 tpy colour coating line was put into operation in Iskenderun (MMK's steel-making plant in Turkey).

MMK held a meeting of the coordination council with OJSC TMK, the largest Russian pipe producer ranking #3 in the world.

### FEBRUARY

MMK's BOF Division started up a new secondary steel treatment unit which allows to produce pipe-making high strength steel grades to international standards for the 5,000 mm Plate Mill.

ProjectFinance, part of the Euromoney media Group, recognized the financing transaction for MMK's Turkish steel making plant as "the Deal of the Year".



### MARCH

MMK was visited by Ralph Lysyshyn, the ambassador of Canada.

MMK was certified for compliance with STO Gazprom 9001:2006 quality management system standards.

Trade Finance Magazine, a specialized publication of the Euromoney Institutional Investor Group, recognized the financing transaction for MMK's Turkish steel making plant as "the Deal of the Year"

A coordination council of MMK and the ChTPZ (Chelyabinsk Pipe-Making Plant) Group reviewed the results of 2009 and considered the prospects for a long-term cooperation between the companies.



### APRIL

MMK joined the ranks of Forbes Global 2,000.

MMK announced the IFRS financial results for 2009:

- MMK's 2009 revenue totaled USD 5.081 bn.
- EBITDA margin was 25%.

A new product - rolled strip coated with protective and decorative film - was introduced at MMK's new colour coating line.

MMK joined the Forbes Global 2,000, the list of the world's leading companies.

MMK won the prize for the Best Innovative Project as part of the Russian Industrialists and Entrepreneurs Union's Competition "Best Russian Companies. Growth, Performance, Reliability 2009".

MMK's steel making plant in Turkey commissioned a 450,000 tpy hot dip galvanizing line.

MMK placed a 3-year, RUB 8 bn issue of exchange-traded bonds included in the MICEX quotation list, with a coupon rate of 7.65%.

MMK's registrar, CJSC Status, changed its address to Ul.Novorogozhskaya 32, Bldg 1, Moscow, 109544.

**MAY**

MMK's Annual General Shareholders' Meeting took place.

MMK hosted the conference "Russian Rolled Steel Market 2010" attended by executives and specialists of steel making and steel trading companies, steel service centres, and specialized media from Russia, Ukraine and Belarus.

MMK took part in the XVIII Specialized International Exhibition "Gas, Oil, Technology 2010".

MMK's Coating Division produced one millionth ton of colour coated sheet since the first CC line's start-up in 2004.

**JUNE**

MMK and AVTOVAZ held the 16th session of the two companies' coordination council.

MMK announced its IFRS results for the 1st quarter of 2010:

- MMK Group's 1Q 2010 revenue totaled USD 1.652 bn;
- EBITDA margin was 22.6%.

MMK won in the competition "Best Russian Exporter 2009" sponsored by the Russian Ministry of Industry and Trade.

A consortium of the Russian Directors Institute and the leading national rating agency Expert RA assigned to MMK a rating of "7+" (Advanced practice of corporate governance) on the national corporate governance rating (NCGR) scale.

The coal producer OJSC Belon, a company of the MMK Group, won the auction for the mineral rights to a part of the Nikitinsky coal deposit, with estimated reserves of 132 million tons of coking coal.

**JULY**

Victor Rashnikov, the Chairman of MMK's Board of Directors, took part in the meeting of the Russian President Dmitry Medvedev and the German Chancellor Angela Merkel with Russian and German companies and businessmen, including the leading German equipment manufacturers which supply over 70% of equipment for MMK's modernization program.

Victor Rashnikov, the Chairman of MMK's Board of Directors, was elected President of the Russkaya Stal Non-Commercial Partnership.

OJSC Belon increased coal production by 996,000 tons in the 1st half of the year, 32% up on the previous year.

Vladimir Putin, the Russian Prime Minister, chaired a meeting in Chelyabinsk dedicated to the Russian steel sector's development. MMK's modernization effort and environment protection measures won high recognition at the meeting.

# ■ Highlights of 2010 and 2011

## 2010



### JULY

The Metallosnabzheniye y Sbyt magazine recognized MMK as the best producer of flat products in Russia.

Moody's upgraded MMK's outlook under the corporate credit rating and the national scale rating from Stable to Positive.

A contract was signed for the construction of a new slag processing unit, Amcom-3, with a capacity of 2.5 m tons of slag per year. The aggregate capacity of MMK's slag processing units will reach 9 m tons of slag per year, yielding up to 1 m tons of iron-containing material every year and allowing to clear away the slag dumps around the Works within the next 10 years.

MMK and the ChTPZ Group, one of MMK's key customers, signed an agreement of cooperation for a period up to 2015.



### AUGUST

MMK proceeded to the installation of the 2,000 cold rolling mill equipment (Rolling Shop 11). The mill's key purpose is to produce premium quality cold rolled and galvanized steel products for the automotive sector, white goods manufacturers and the construction sector. The mill will have an annual capacity of 2 m tons.

MMK was ranked 21st in the Russian companies' social responsibility rating conducted by the Trud daily and the Agency of Political and Economic Communications.



### SEPTEMBER

The 5,000 Plate Mill's products were successfully certified for compliance with the DNV-OS-F101 international quality standards.

MMK announced its IFRS results for the 2nd Q of 2010:

- MMK Group's 2Q 2010 revenue totaled USD 2.068 bn;
- EBITDA margin was 21.1%.

Fitch Ratings upgraded MMK's credit rating outlook to Positive.

MMK placed a 3-year, RUB 5 bn issue of exchange-traded bonds included in the MICEX quotation list, with a coupon rate of 6.47%.

MMK's annual report won the 1st prize in the category "Design and Idea" of the VII Open Competition of Annual Reports held as part of the IX International Investment Forum "Sochi-2010".





### OCTOBER

MMK's steel plant in Iskenderun, Turkey, put into operation a 750,000 tpy cold rolling mill.

One year before, the first trainload of iron ore had been shipped from the Sosnovsky Mine (LLC Bakal Mining Administration, a company of the MMK Group). Over the course of the year the BMA mined about 1 million tons of ore. The ore concentrate from the Sosnovsky Mine covers 10% of MMK's requirement cutting down production costs by RUB 1.15 million a year.

MMK was visited by a delegation of companies involved in the Shtokman Gas Deposit Project, for the purpose of qualifying MMK's for participation in the Project.

A project of the MMK-sponsored Metallurg Charity Foundation, Give the Warmth of Your Heart to Children, became the winner of the All-Russia 2010 Grants Competition.



MMK had its facilities successfully audited by Renault-Nissan in preparation for production of steel for the automotive sector.

MMK and Hatch Engineering & Consulting signed a contract for pre-design work to determine the optimum method for developing the Prioskol Iron Ore Deposit.

MMK hosted the 8th International Rolling Engineers' Congress.



### NOVEMBER

MMK commissioned the 1st stage of its stamping plant and steel service centre near St.Petersburg, whose products are intended for the leading international automakers and for Russian and foreign manufacturers of white goods. The commissioning was attended by the Russian Prime Minister Vladimir Putin.

MMK's 2009 Annual Report won in the annual competition of annual reports and corporate websites sponsored by the RBC Media Group and MICEX in the key category - Best Level of Information Disclosure in an Issuer's Annual Report. MMK's 2009 Annual Report won in the XIII Federal Competition of Annual Reports organized by the RTS Exchange, in two out of a total of 13 categories.

MMK was visited by the Minister Industry and Trade Victor Khristenko who made a tour of the production facilities of key importance for MMK's strategic objectives.

Shipbuilding steel from MMK's 5,000 mm Plate Mill received a compliance certificate from Det Norske Veritas, Norway.



# ■ Highlights of 2010 and 2011

## 2010



### NOVEMBER

MMK won a gold and a silver medals at the Metall Expo 2010 in Moscow for the development and adoption of processes to produce pipe steel grades and deep drawing quality thin-gauge sheet. A gold medal was also awarded to a joint development of the I.P.Bardin Research Institute FGUP TsNIIchermet and OJSC MMK. MMK-owned TV channel TV-IN won in the category "Best Corporate Electronic Media", and MMK's daily newspaper Magnitogorsky Metall, in the category of the best printed publication of a steel-making company.

Standard and Poor's upgraded MMK's rating outlook from Stable to Positive.

MMK rose from the 3rd to the 2nd position in the Russian companies' information transparency rating according to the survey conducted by Standard and Poor's in conjunction with the Centre for Economic and Financial Research.



### DECEMBER

MMK's 5,000 mm Plate Mill produced the 1st million tons.

MMK announced its IFRS results for the 9 months and the 3rd Q of 2010:

- MMK Group's 3 Q 2010 revenue totaled USD 2.055 bn;
- EBITDA margin was 19%.

MMK won in the Annual Competition "For an Active Corporate Policy in Information Disclosure" and was awarded prizes in the categories "The Best Crisis Management of the Year" and "The Best Information Policy" as part of the survey "Results of 2010 in the Urals and Siberia" sponsored by the Russian information agencies Interfax and AK&M.

MMK's production divisions adopted the Ford Motor Co. standards for galvanized steel used in the automotive sector.

MMK won the Company of the Year National Prize sponsored by the RBC Group in the category "Steel-Making".

Shipbuilding steel from MMK's 5,000 mm Plate Mill was certified by the classification society Germanischer Lloyd.

## 2011



### JANUARY

The Metallosnabzheniye y Sbyt magazine recognized MMK as the best Russian producer of flat products.

### FEBRUARY

79th anniversary of MMK.

A new version of MMK's official website was launched ([www.mmk.ru](http://www.mmk.ru)).





### MARCH

Russian President Dmitry Medvedev visited MMK for the first time. Mr. Medvedev chaired a session of the Presidential Commission for Modernization and Technological Development as part of the visit where the issue of training qualified personnel for industrial enterprises was discussed.

MMK won in the All-Russia Competition "Best Russian Companies. Growth, Performance, Reliability 2010" sponsored by the Russian Industrialists and Entrepreneurs Union, in the category "Environmentally Responsible Business".

MMK announced the acquisition of a 100% interest in MMK's steel making JV in Turkey. The value of the deal to acquire an additional 50% minus 1 share totaled USD 485 million.

The Inskederun site of MMK's steel making plant in Turkey commissioned an electric arc furnace facility with an annual capacity of 2.3 m t.



### APRIL

MMK announced its IFRS results for the 12 months and the 4th Q of 2010:

- MMK Group's 2010 revenue totaled USD 7.719 bn;
- EBITDA margin was 21%.

MMK became a winner in the IX Annual National Prize Award "IT Leader". The event was attended by over 500 representatives of companies engaged in the development and implementation of innovative solutions in IT.



### MAY

MMK held its Annual General Shareholders' Meeting which adopted the following resolutions:

- The authority of LLC MMK Managing Company as the sole executive body of MMK was terminated;
- Boris Dubrovsky was appointed General Director of MMK;
- A new Board of Directors was elected consisting of Victor Rashnikov, Vitaly Bakhmetiev, Boris Dubrovsky, Nikolai Lyadov and Oleg Fedonin as executive directors, David Herman and Bernard Sucher as newly elected independent directors, and David Logan, Zuzumrud Rustamova and Peter Charow as reelected independent directors (see the section on Corporate Governance for more details).
- CJSC KPMG was approved as the new auditor of the Company;
- The 2010 financial year dividends were calculated at RUB 0.33 per ordinary share.

The Fitch rating agency upgraded MMK's long-term default rating from BB to BB+, and the Company's national scale long-term rating rose from AA- (rus) to AA (rus).

# ■ Business Model MMK

"an explanation of the basis on which the company generates or preserves value over the longer term" (UK Corporate Governance Code approved by the Financial Reporting Council, UK)

## Performance Factors:

Modern, high-performance assets

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Diverse product mix and sales footprint

page 18

Balanced financial policy

page 19

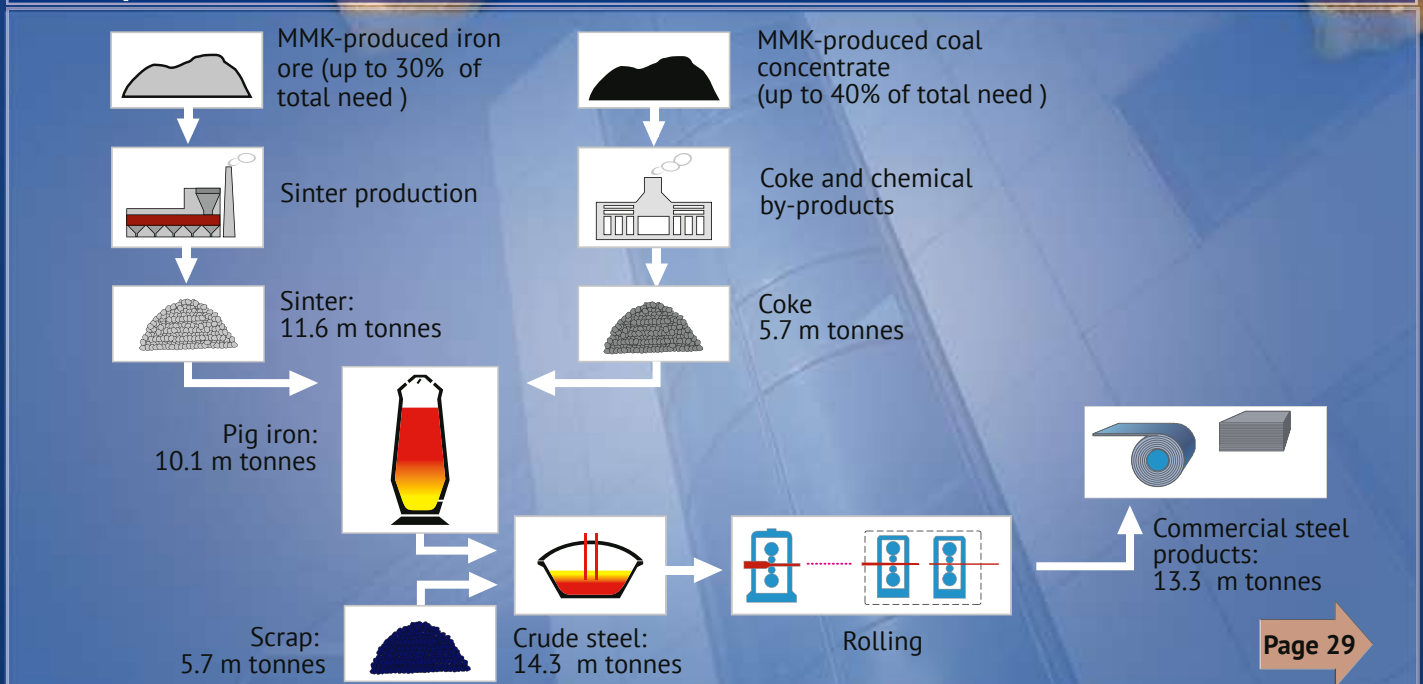
Significant growth potential

page 20

# Modern, High-Performance Assets

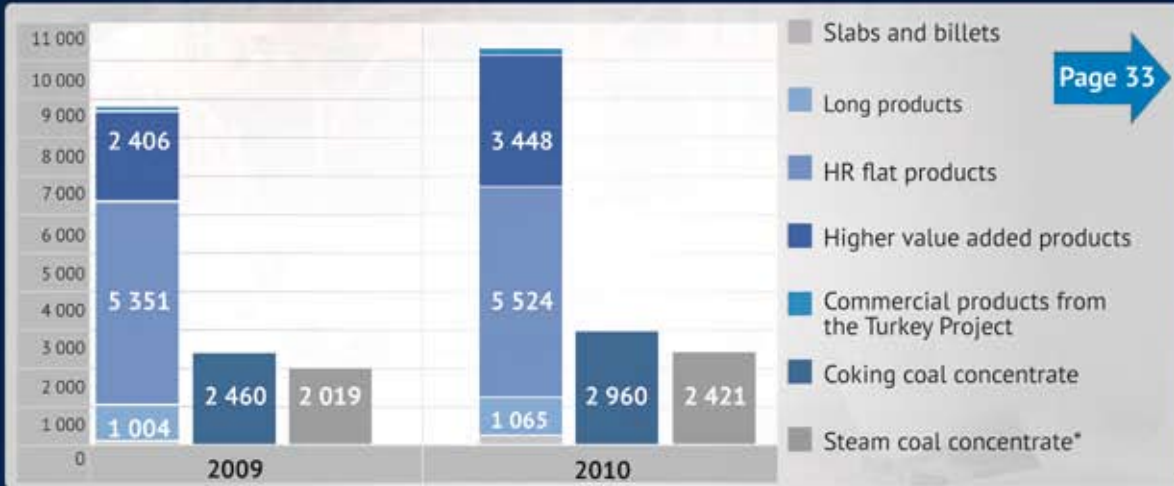


## OJSC MMK: Europe's largest and the world's second largest single-site steel producing complex



# ■ Diverse Product Mix and Sales Footprint

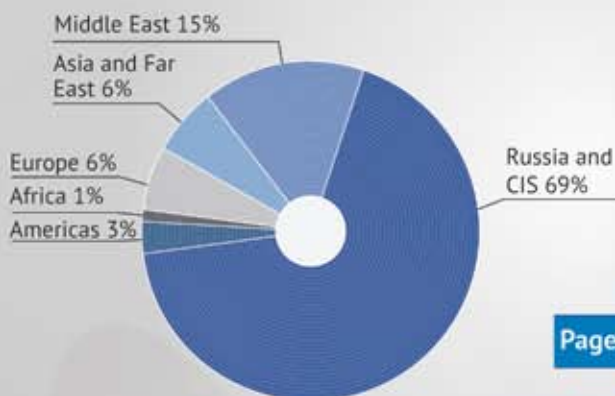
## Russia's most diversified product mix



\*In 2011 Belon's steam coal business was spun off from MMK Group

## Broad sales footprint

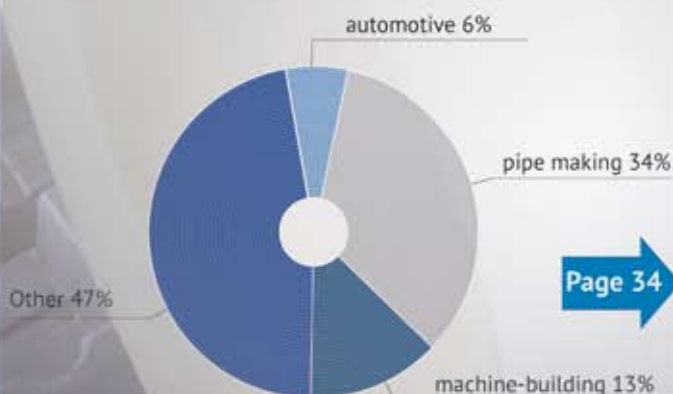
### Sale structure by region, 2010



- MMK products are sold in 60 countries
- The domestic market (Russia and CIS) is a priority for MMK, evidenced by a high share of shipments (69%)
- Traditionally, MMK's key international destinations are the Middle East (15%), Europe (6%) and Asia (6%).

## Focus on large sectoral customers

### Domestic sales by sector, 2010



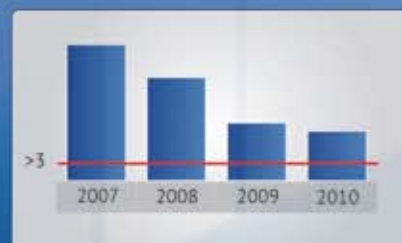
- MMK's key domestic customers are the pipe-making, machine-building and construction sectors.

## ■ Balanced Financial Policy

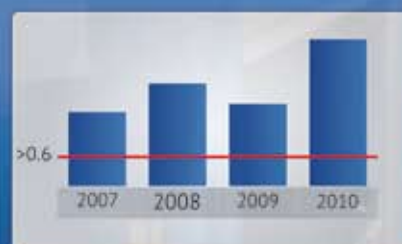
Net debt/EBITDA ratio must not exceed 3.5:1



EBITDA/Interest expenses ratio must not be below 3:1



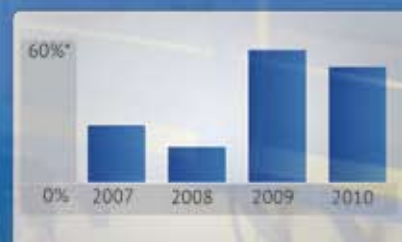
EBITDA/Debt Service ratio must not be below 0.6:1



Debt/Equity ratio must not exceed 1:1



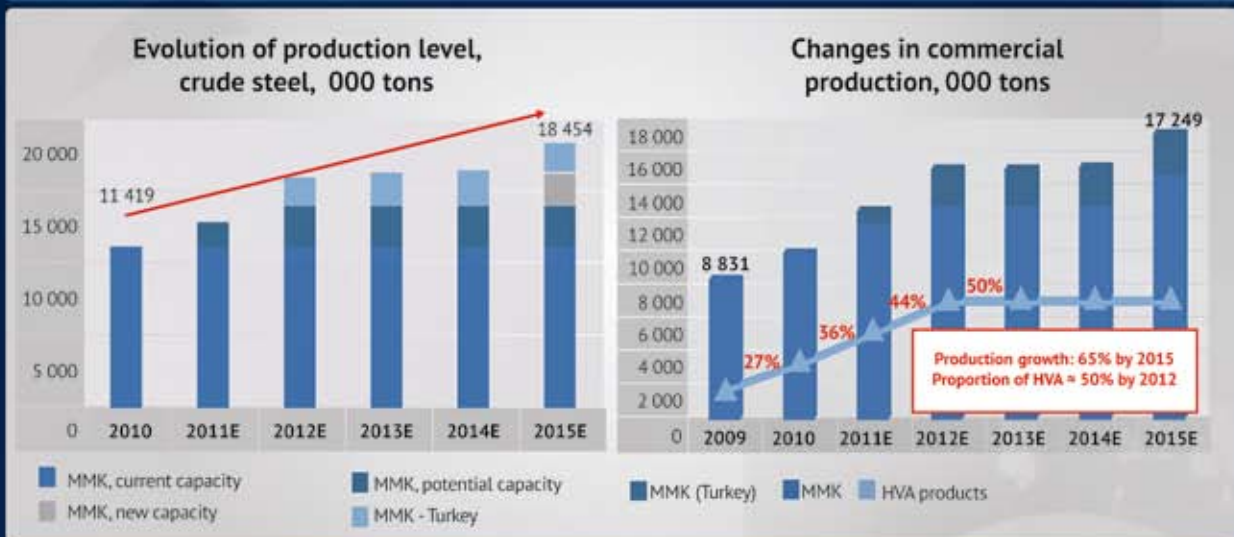
**Dividend Policy:** In its recommendations regarding the size of dividends the Board of Directors takes into account the financial and economic position of the Company, the prospects of the Company and the sector and is guided by the balance of interests of the Company and its shareholders.



\* Ratio of dividend to net profit under IFRS, %

# ■ Significant Growth Potential

Significant potential for production growth: production planned to increase over 45% by 2012 and over 65% by 2015



Growing proportion of higher value added products in the total output (up to 50% by 2012) for better performance

Import substitution of flat products for the domestic market as a foundation for MMK's business growth

Focus on growing domestic sectors, such as pipe-making, automotive and machine-building industries

Implementation of MMK's Turkey project aimed at strengthening the Company's positions in the Middle East



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IRON & STEEL  
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The human eye is capable of distinguishing  
10 million colours – we can offer you any of those!

Colour coated steel

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[www.mmk.ru](http://www.mmk.ru)

# MMK's Mission and Strategy

**MMK's mission is to produce and sell high quality steel products that meet the current and future requirements and expectations of our customers for the purpose of earning sufficient profit to secure the Company's position as a global leader.**

The principal strategic goal of MMK is to maintain its long-term competitive position on the global steel markets.

To attain this goal, MMK is taking the following steps:

1. Expansion into new markets;
2. Diversification into new product lines;
3. Cost reduction;
4. Securing supplies of raw materials and power resources.



## EXPANSION INTO NEW MARKETS

### ***Increased Sales of Hot Rolled Products***

The Company continues to modernize the 2,500mm Hot Rolling Mill, which will increase its capacity to 5.5 mtpy of products in a wider range of sizes (1.5-25.0 mm thick instead of 1.8-14.0 mm, and 1,000-2,350 mm wide), and in coils of up to 40 tonnes (instead of the current 25 tonnes).

In July 2010, a new, state-of-the-art cut-to-length line was put into operation, which is designed to cut hot rolled strip 5-25 mm thick and 1,000-2,350 mm wide wound into coils, into sheets 3 to 24 m long. The capacity of this line is 1.125 mtpy.



### ***Stronger Presence in the Central Region of Russia***

On November 22, 2010, CJSC Intercos-IV, a company of the MMK Group, commissioned a steel service centre in St. Petersburg with a design capacity of 250,000 tonnes of sheet blanks to produce stamped parts for the automotive sector and white goods manufacturers.

### ***Promoting Relations with Key Customers***

In November, 2010, OJSC MMK signed a memorandum with OJSC KAMAZ regarding construction of a steel service centre in the city of Naberezhniye Chelny (where Kamaz's main truck manufacturing facilities are located). The centre will be equipped with a shot blasting machine, the first of its kind in Russia. It is scheduled to go on

stream in 2012 and will process 170,000 tonnes of hot rolled steel per year for the automotive, construction and machine building sectors.

### Construction of a Steel Producing Complex in Turkey

MMK is determined to consolidate its position on the Middle Eastern market, and is moving ahead with construction of a steel production complex in Turkey that is designed to produce 2.3 million tonnes of rolled products per year. The complex will be located in two cities: Iskenderun and Istanbul.

In October 2010 the Iskenderun site commissioned a cold rolling complex comprising a continuous pickling line, two-stand reversing cold mill, a continuous hot dip galvanizing line and a colour coating line. A sea port was built and certified for operation.

The Istanbul site commissioned cutting lines at its service centre, and is now installing a continuous hot dip galvanizing line and a colour coating line.

## DIVERSIFICATION INTO NEW PRODUCT LINES

### New Steel Grades

In February of 2010 a secondary steel treatment unit went on stream in the Company's BOF Shop. It will produce steel for large-diameter longitudinal welded tubes with increased hydrogen sulphide resistance and corrosion-resistant tubes of up to X-120 strength, special steels, automotive steel (ultra-low carbon, high strength, dual-phase, multi-phase and TRIP-steel) and steel for household appliances.

In 2010 MMK launched production of 30 new steel grades, including K65, 80HFU, RSA, SAWL 485 FD, DNV485 FD, and adopted a process for pouring pipe-making steel grades on the # 6 Continuous Caster of the BOF Shop.

### Cold-Rolled Auto Body Sheet

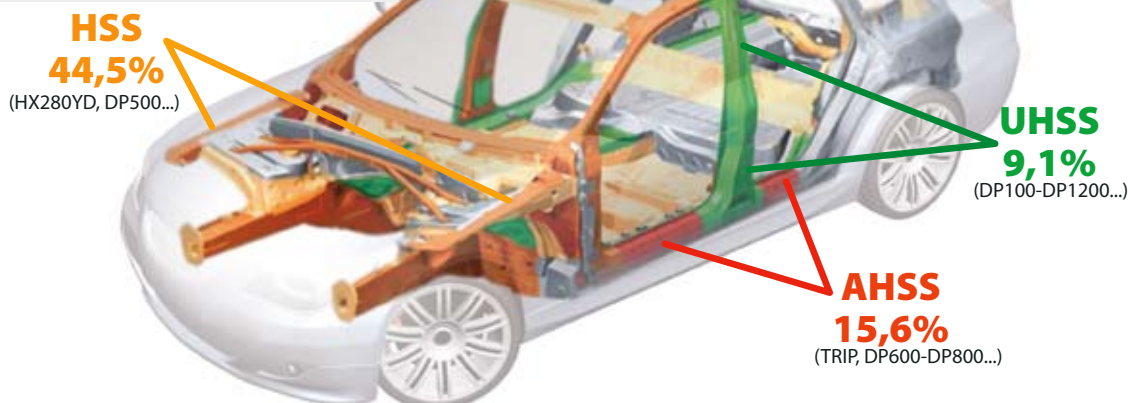
In 2010 the Company's existing facilities launched the following new products for the automotive sector:

- for OJSC AVTOVAZ:
  - 0.7-2.8 x 1,000-1,500 mm, 08GSUT grade cold rolled coils ,
  - 3.5 x 190 mm, St 10 grade cold rolled band with enhanced quality (P), high gauge precision (V) and roughness (Ra) not exceeding 0.63;
  - 0.7-2.0 x 1,000-1,400 mm, St H220P grade CR coils ;
  - 0.75 x 1.19 x 1,050-1,600 mm, St006/IF steel grade hot dip galvanized (HDG) coils .
- for Ford Motor Company:
  - 0.6-0.79 x 1,000-1,600 mm, stHX260BD grade HDG coils;
  - DX56D and DX54D grade HDG coils.
- for the Urals Automotive Plant:
  - Cold rolled coils with roughness not exceeding 10 μ.

### Cold Rolling Shop (#11) commissioning:

1st Stage: July 2011

2nd Stage: July 2012



### Key Parameters of the Cold Rolling Mill:

Capacity, mtpy	2.0
Width range, mm	850 – 1,880
Gauge, mm	0.28 – 3.0
Steel grades	HSLA, IF-HSS, BH, TRIP, HX, DP, DX
Tensile strength, MPa	up to 1,500

\* IF HSS - Interstitial Free High Strength Steel  
BH - Bake Hardening  
TRIP - Transformation-Induced Plasticity  
HSLA - High Strength Low Alloy



To localize their production, foreign automakers need high-strength steels to be produced in Russia. At present the volume of such production is insignificant, and the demand is mainly met by imports. To tap that market, MMK is building a new, 2,000 mm cold rolling mill. This project will allow the Company to provide automakers with high quality cold rolled and galvanized steel sheet (including sheet made of high-strength steel, such as HSLA, IF-HSS, BH, dual-phase, multi-phase and TRIP-steel, meeting all modern requirements for these products). Products from this line will also be used by manufacturers of household appliances, who require high-quality cold-rolled and galvanized sheet with the required drawing quality and free of surface defects – a product also used for manufacturing exposed parts of cars. This 2.1 mtpy mill will produce cold rolled coils of up to 43.5 tonnes, 0.28-3.0 mm thick and 850-1,880 mm wide.



#### **Cost Reduction**

Enhancing production efficiency through cost reduction has always been one of MMK's priorities. Steps to reduce costs are being developed and implemented on a regular basis. In 2010 MMK's successful cost-cutting measures helped to reduce production costs by 2 bnroubles (1.1%) or RUB 1,900 per tonne of commercial product, including through:

- reduction of specific consumption and composition change of materials: RUB 0.9 b.n., including:
  - raw and primary input materials: RUB 0.4 bn;
  - auxiliary materials: RUB 0.5 bn.
- reduction of maintenance and repair costs: RUB 0.7 bn (due to lower contractor costs as a result of increased competition and optimizations to work regulations);
- reduced prices for material resources: RUB 0.2 bn.



A new program for 2011 designed to bring down costs by at least RUB 2 bn is being implemented.

#### **Raw Materials and Energy Resources' Procurement**

In 2010 MMK continued its efforts to develop the Company's own raw materials base.

2 slag processing units were started up, bringing MMK's total slag processing capacity up to 9 mtpy, and the capacity for extracting iron containing materials, to 1 mtpy.



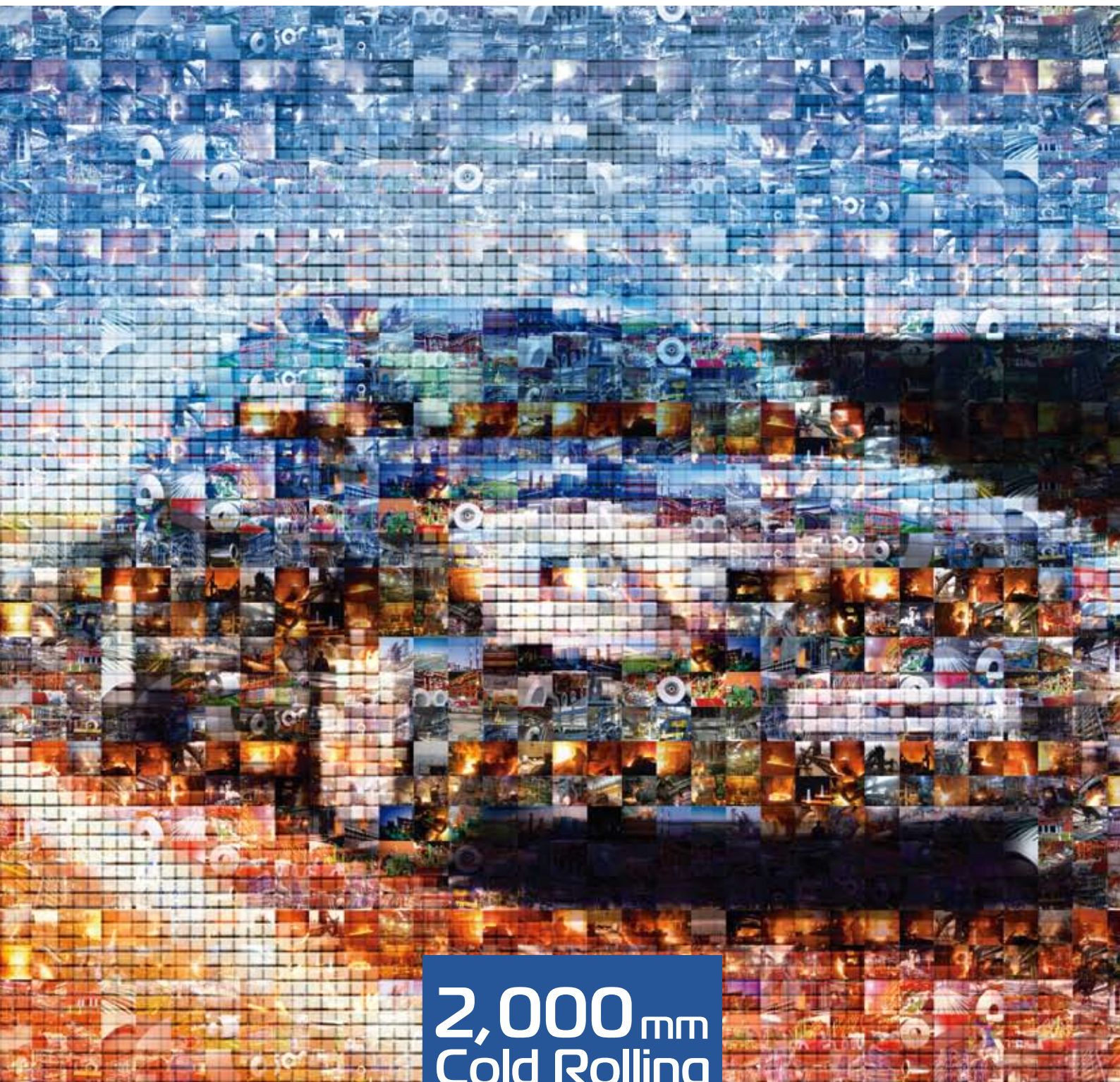
Iron ore deliveries from the Sosnovskaya Mine, Chelyabinsk Region, passed the 1 mtpy mark, with the design capacity of 2-2.5 mtpy.

In the future MMK plans to build an iron ore beneficiation plant at the Prioskolsky Iron Ore Deposit, the largest undeveloped deposit in Russia. In 2010 the Canadian company Hatch continued design work on various options for ore mining at the deposit.





MAGNITOGORSK  
IRON & STEEL  
WORKS



**2,000<sup>mm</sup>  
Cold Rolling  
Complex**

**Premium quality steel product  
for the automotive sector**

93, Kirova str., Magnitogorsk, Russia, 455000  
Tel.: +7(3519) 24 7929, fax: +7 (3519) 24 9200  
[www.mmk.ru](http://www.mmk.ru)

# ■ OJSC MMK Board of Directors' Report on Strategic Plan Implementation

In 2008 the Board of Directors approved OJSC MMK's Strategic Development Plan for the Period up to 2017 ("the SD Plan"). The SD Plan covers the top-priority areas of sales and marketing, technological development, financial management, environment protection, raw materials and power supply, HR development, social policy, risk management, and information technologies.

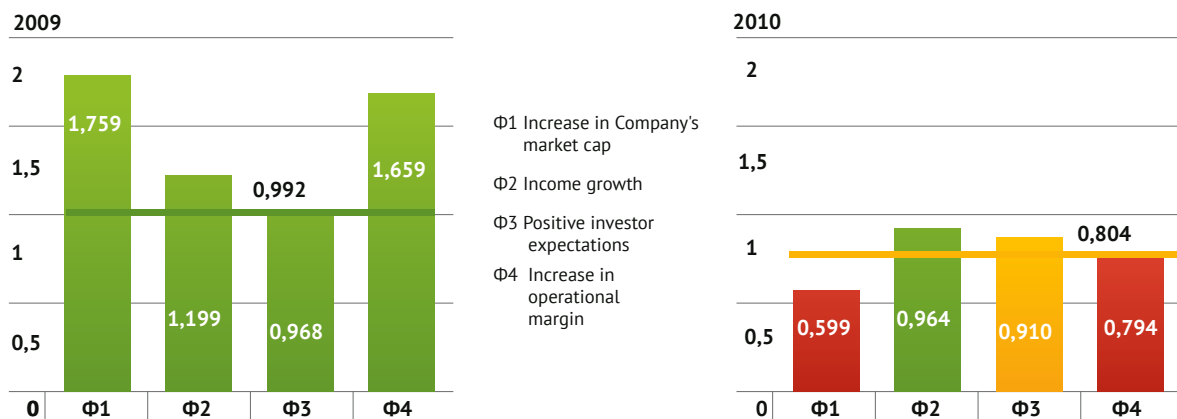
As part of the SD Plan, MMK, on an annual basis, develops new 3-year business plans. In 2010 the Company approved its plan for the period up to 2012. Every year the Board of Directors approves the Company's budget for the current year. The parameters of the approved budget serve as targets

for the Balanced Scorecard System (BSS) which is used to evaluate the achievement of strategic objectives and current operations.

This business planning system enables the Company to respond to the changing environment while monitoring its short- and medium-term objectives in priority areas.

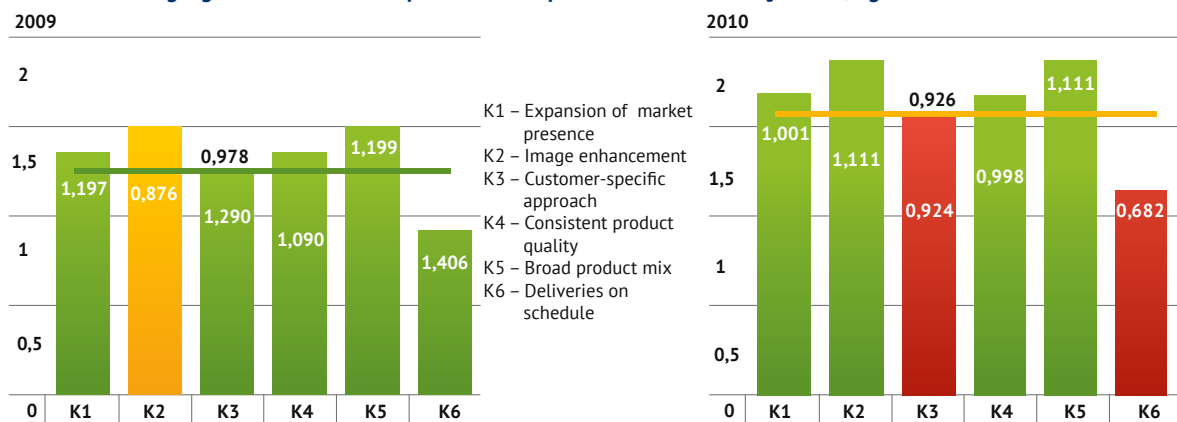
In 2010 an analysis of the key overall BSS performance targets showed that 17 out of 20 higher-level strategic objectives were met, bringing the Company's total strategy implementation index to 92.2%, compared to 95.1% in 2009.

**Strategic goals in the Finances sphere were implemented at 80.4% (against 99.2% in 2009).**



It should be noted that, although the Company was unable to reach the mark of USD 20 bn for its market value, the MMK Group's capitalization (LSE) increased 29% compared to 2009 to reach USD 12.5bn as of 31 December 2010.

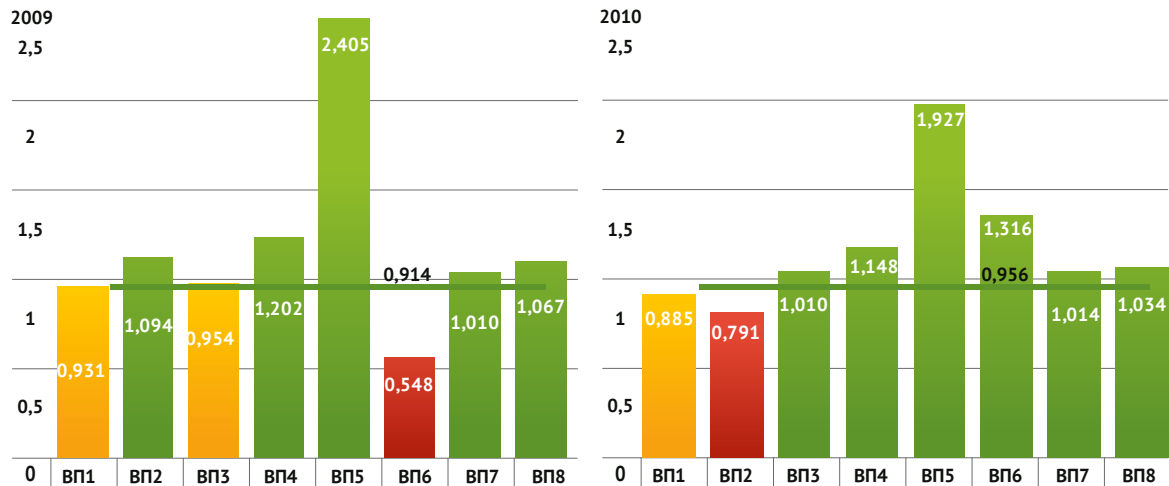
**Strategic goals in the Clients sphere were implemented at a level of 92.6%, against 97.8% in 2009.**



Objectives K3 "Customer-Specific Approach" and K6 "Deliveries on Schedule" are in the zone of critical deviations mainly due to products quality downgrading.

(in the tables, green represents a target met, yellow represents a target in the zone of acceptable deviations, and red indicates a target, in the zone of critical deviations.)

**Strategic goals in the Internal Processes spherereached 95.6%, up from 91.4% in 2009.**



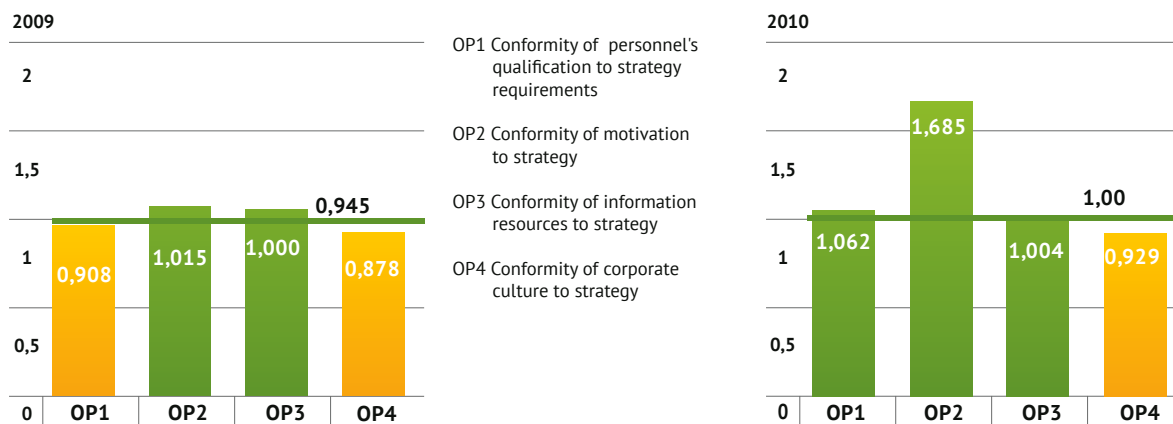
BP1 - develop customer-specific approach  
 BP2 - develop product quality management  
 BP3 - diversify into new products with a higher added value  
 BP4 - raise production processes' efficiency  
 BP5 - develop and adopt new technology  
 BP6 - improve logistics  
 BP7 - secure long-term raw materials supplies  
 BP8 - pursue responsible social and environmental policies

Objective VP2 "Develop Product Quality Management" was not met due to the learning curve related to new plate production processes. Production levels were raised thanks to the 5,000 mm Plate Mill commissioned in 2009 (with 943,000 t of plate produced in 2010).

Objective VP7 "Secure Long-Term Raw Materials Supply" was met, largely thanks to the inclusion of OJSC Belon in the MMK Group which enabled MMK to avoid the coal shortage in connection with the accident at the Raspadsky Mine.

**The implementation of strategic goals in the Education and Development spherereached 100%, against 94.5% in 2009.**

The Company achieved the objectives of raising employee qualifications, improving staff motivation and providing informational support to the Company's operations.

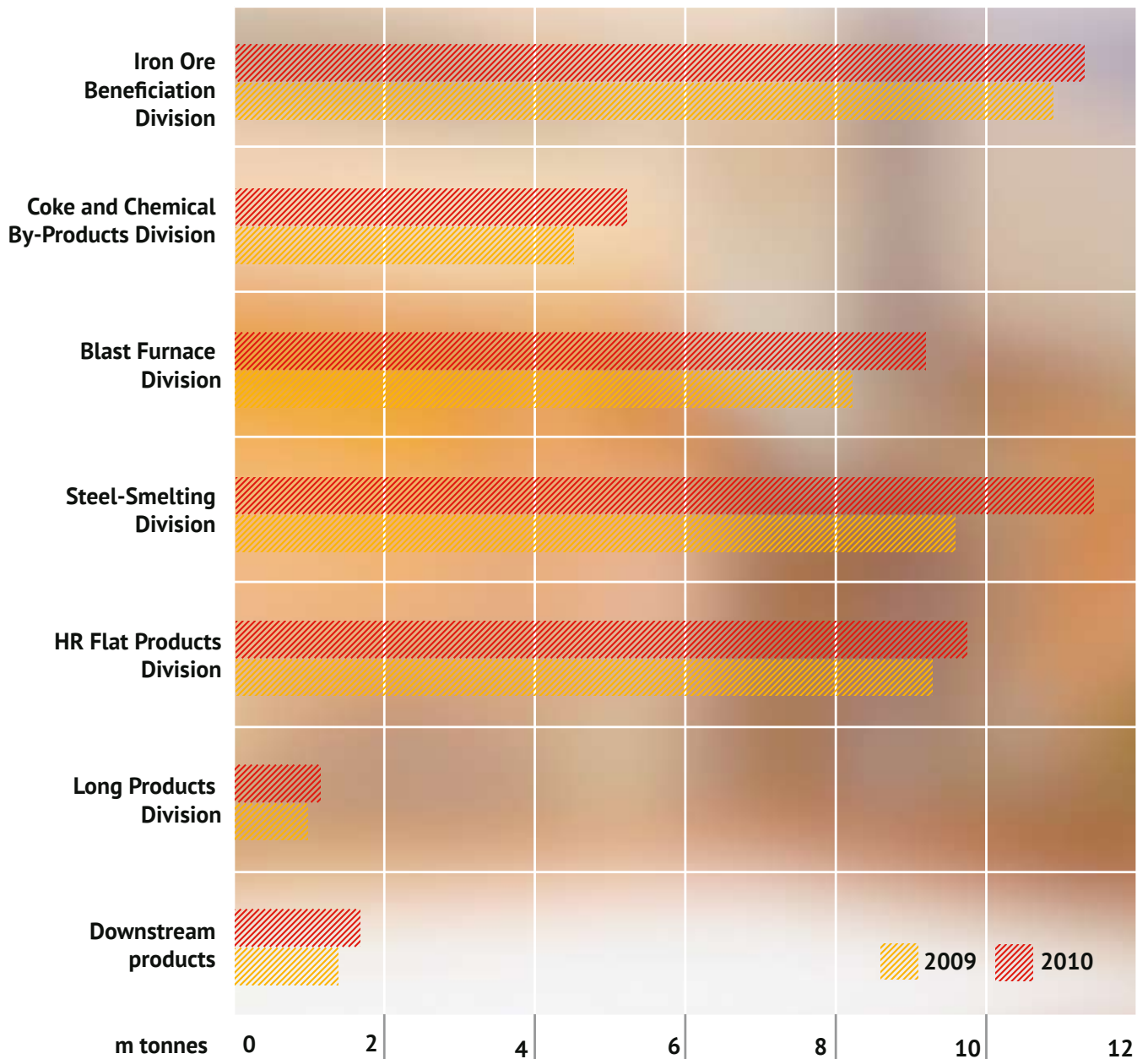


This analysis of MMK's results in strategic priority areas in 2010 demonstrates that the Company's long-term goals set out in the corporate strategy have generally been achieved.

# The Company's Production Operations

The Magnitogorsk Iron and Steel Works is a state-of-the-art, fully integrated steel making complex located in the city of Magnitogorsk, Russia.

MMK's Production Levels By Division



## OJSC MMK's Production Facilities

Description	Equipment	Final product	Production level in 2009, m tonnes	Production level in 2010, m tonnes	Capacity utilization in 2010, %	Production level in 2011*, m tonnes
Iron Ore Beneficiation Division	13 sinter machines	Sinter	10.9	11.3	100	11.6
Coke and Chemical By-Products Division	9 coke oven batteries	Metallurgical coke	4.5	5.2	92	5.7
Blast Furnace Division	8 blast furnaces	Pig iron	8.2	9.2	92	10.1
Steel-Smelting Division	3 converter vessels	Steel billets	9.6	11.4	76	13.0
	2 electric arc furnaces					
	1 twin-bath furnace					
Power generation	4 power plants	Electric power	5.1 MWh*	5.2 MWh*	90	5.1 MWh*
Long Products Division	3 long products mills	Long products	1.0	1.1	51	1.4
Flat Products Division	5 hot rolling mill	HR flat products	9.3	9.7	84	11.2
	4 cold rolling mills	CR flat products	2.2	2.3	79	2.7
Downstream products	3 hot dip galvanizing lines 2 tinning lines 2 colour coating lines	Coated flat products	1.1	1.2	74	1.5
	1 cold rolling mill	CR narrow strip	0.1	0.2	40	0.1
	4 cold forming mills	Cold formed sections	0.1	0.2	31	0.2
	3 pipe welding mills	Pipes	0.1	0.1	63	0.1

\* Plan for 2011 approved by the BoD on 17 December 2010

The Magnitogorsk Iron and Steel Works is the organizational and business core of MMK Group, comprising 104 companies and organizations engaged in the supply of raw materials to MMK, downstream steel processing, manufacture of other types of products, services, and steel sales.

## The Company's Production Operations

Scope of Activities	Company Name		Location
Raw materials supply	OJSC	Belon	Belovo, Kemerov Region
	LLC	Bakal Mining, Administration	Bakal, Chelyabinsk Regi
	CJSC	Profit	Magnitogorsk, Chelyabinsk Region
Steel smelting and rolling	OJSC	Magnitogorsk Iron and Steel Works	Magnitogorsk, Chelyabinsk Region
Downstream steel processing	OJSC	Magnitogorsk Metizno-Kalibrovochny Zavod MMK-METIZ	Magnitogorsk, Chelyabinsk Region
	OJSC	MMK-Profil-Moskva	Schelkovo-2, Moscow Region
	CJSC	Intercos-IV	Gorelovo, Lomonosovsly District, Leningrad Region
	CJSC	Steel-making complex in Turkey	Iskenderun & Istanbul, Turkey
Other products and service*	LLC	Refractories Plant	Magnitogorsk, Chelyabinsk Region
	OJSC	Magnitogorsk Cement and Refractories Plant	Magnitogorsk, Chelyabinsk Region
	CJSC	Mekhano-Remontny Kompleks	Magnitogorsk, Chelyabinsk Region
	CJSC	Stroitelny Kompleks	Magnitogorsk, Chelyabinsk Region
	LLC	Elektroremont	Magnitogorsk, Chelyabinsk Region
Steel sales	LLC	Torgovy Dom MMK (Trading House)	Magnitogorsk, Chelyabinsk Region
		MMK Trading	Zug, Switzerland

## Products and Services

## Markets

## 2010 Production Results

Production and processing of coking  
and steam coal

MMK as priority customer

6.6 m t of concentrate  
(3.7 mt coking and 2.9 mt steam)Siderite iron ore (52% Fe), calcined  
siderite concentrate, sinter ore

MMK as priority customer

2 m t

Collection and processing of scrap

MMK

2.2 m t

Integrated steel production, from  
sintering to long and coated flat  
productsDomestic market: 62%,  
CIS: 7%  
export: 31%

10.2 m t of steel products

Wire, CR narrow strips, strip, railway  
and mechanical fasteners, calibrated  
steel, steel mesh, nails, steel rope  
(metalware)30% of the Russian metalware  
market

450,000 t

Corrugated floor board, steel tile,  
siding, sandwich panels, formed  
sections

Moscow Region

56,000 t

Stampings, steel service centre  
products

Leningrad Region

240, 000 t

Flat products, incl. coated products

Republic of Turkey

156, 000 t

Alumino-silicate and magnesia-  
carbonaceous refractory materials10% of the Russian  
refractories market

231,000 t

Cement

Dolomite

Urals Region

571, 000 t

416,000 t

Steel structures, replaceable  
equipment, rolling mill rolls,  
maintenance and repair servicesRussian plants of the ferrous  
and nonferrous sectors

109,000 t

Construction, erection and repairs

Magnitogorsk

RUB 1.8 bn [USD 60 m)

Installation and repair of electrical  
equipment, maintenance services

Magnitogorsk

RUB 1.8 bn [USD 60 m)

Sale of MMK and MMK-Metiz products

Russia, CIS

1.4 m t of steel products

Sale of MMK products

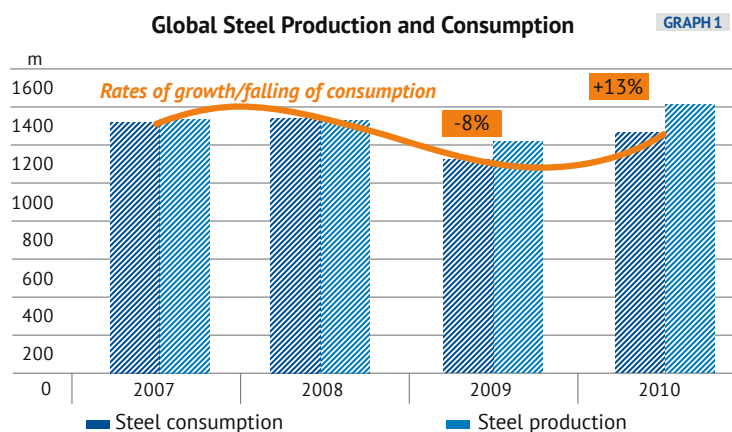
Export

2.7 m t of steel products

■ GAINING MOMENTUM

# Overview and Analysis of the Steel Market

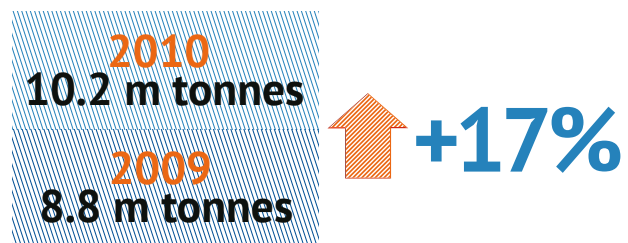
In 2010 steel consumption and production grew in most part of the world. According to World Steel Association (WSA), in 2010 world steel production equalled approximately **1.4 bn tonnes**, a 15% increase over 2009. Global steel consumption grew 13.1%, reaching **1.3 bn tonnes**, after an 8.6% decline in 2009. **GRAPH 1**



The recovery in steel demand enabled steel producers to increase production levels and implement modernization projects.

The leading regions in terms of the rate of growth in steel production were Europe (+25%) and North America (+36%), primarily due to the low base effect as a result of a sharper decline in production the previous year. Asia produced 881.2 m tonnes of steel (up 12% on 2009), which represented 65.5% of global production, compared to 63.5% in 2009. Steel production in CIS countries grew by 11%, to 108 m tonnes.

#### Commercial Production at MMK

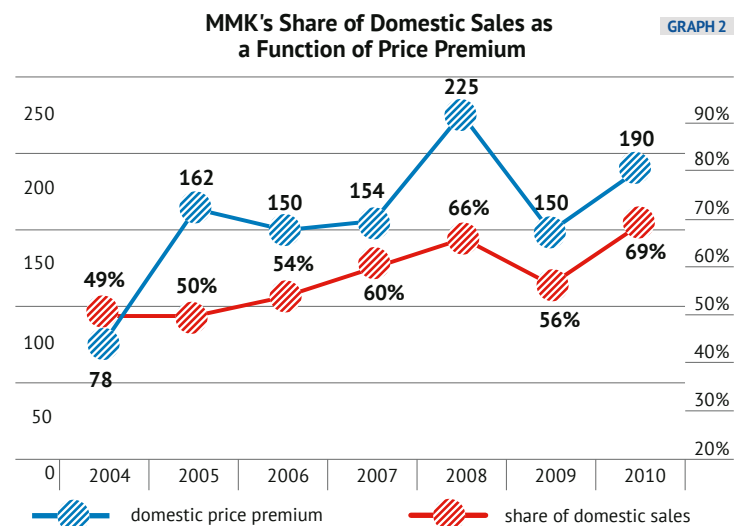


Russia increased crude steel production by 12% compared to 2009 (67 m tonnes), putting the country in 4<sup>th</sup> place after China, Japan and the US. MMK produced 19% more crude steel than in 2009 (2010: **11.4 m tonnes**), increasing production at a faster rate than the average for Russia.

#### Domestic and CIS Markets

Shipments to the domestic market (including the CIS) totalled 7.0 m tonnes, an increase of 43.6% compared to 2009. The share of domestic shipments in MMK sales increased to 69%, up from 56% in 2009, reaching the highest level in recent years. **GRAPH 2**

Due to its geographical proximity and higher margins, the domestic market is strategically more important to MMK. In 2010 average domestic steel prices in Russia were USD 190/tonne higher than international prices.

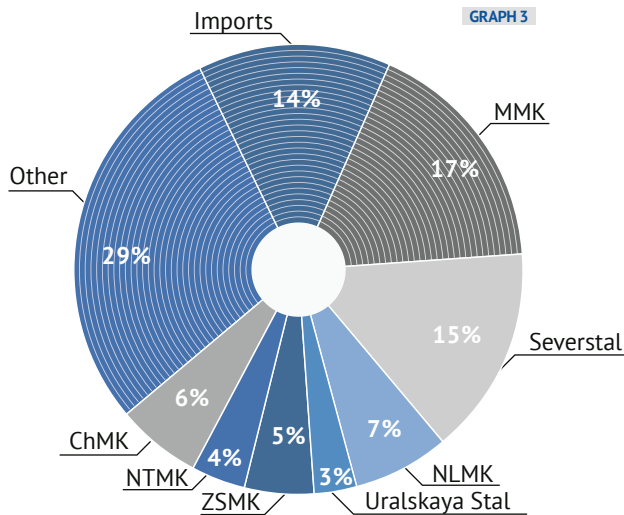


## Russian Market

MMK maintains its leadership on the Russian steel market. [GRAPH 3](#)

In 2010 MMK's share of the Russian market increased to **17%** from 16% in 2009, driven by sales from the 5,000 mm Plate Mill. [GRAPH 4](#)

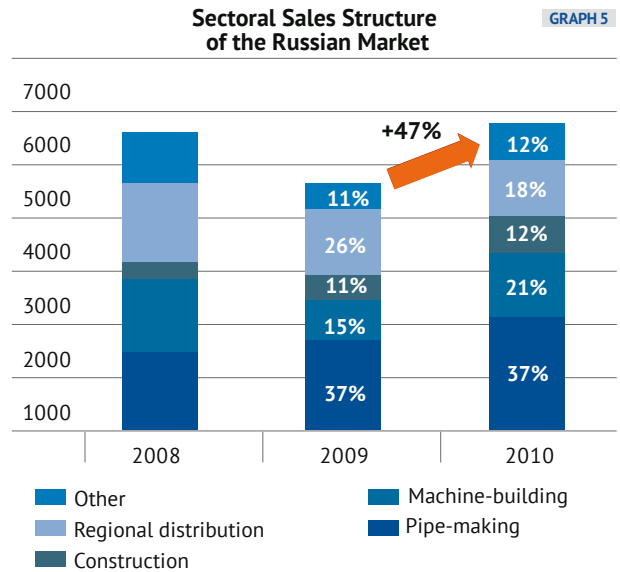
Structure of the Russian Steel Market in 2010



In 2010 steel consumption in Russia grew by **38%** compared to 2009, reaching a total of **36.6 m tonnes**. MMK increased its Russian sales by **47%**, which is higher than the growth of consumption in Russia. In terms of physical volumes, MMK's domestic shipments were on a par with 2008 levels.

MMK's largest customers on the Russian market are pipe makers, machine builders and the construction sector (70% of the sales). [GRAPH 5](#)

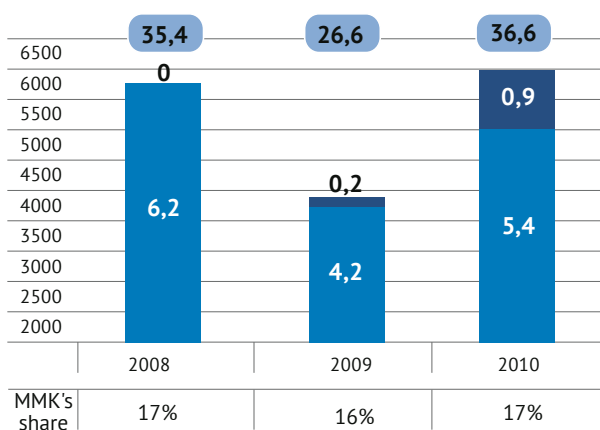
Sectoral Sales Structure of the Russian Market



**MMK strives to become a strategic supplier of steel for Russia's major sectoral customers.**

GRAPH 4

MMK's domestic sales, m t



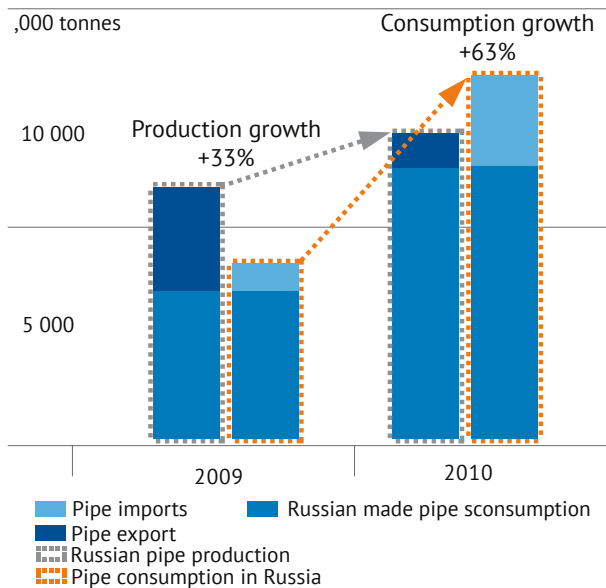
■ Internal consumption, m tonnes  
■ MMK sales without Plate Mill  
■ Plate Mill

## Pipe Making Industry

In 2010 Russia experienced a surge of demand for pipes, which totalled 9.6 m tonnes, 63% higher than in 2009. The surge was driven by demand from the oil and gas sector, construction and machine building.

Russian pipe-makers increased their production to **9.1 m tonnes (+33%)** while reducing exports (-39%). Nevertheless, there was a shortfall, which was compensated by increased pipe imports (+139%). [GRAPH 6](#)

Prices on the Russian pipe market are practically always higher than international market prices, which is attractive for imports (specifically, from Ukraine). The Russian market has a partial protection from imports in the form of quotas and high import duty on deliveries above quotas.

**GRAPH 6** Growth rate in Russian pipe-making sector

Thus, in 2010 the Russian pipe sector recovered to pre-crisis levels of consumption, and continued to grow due to ongoing large-scale projects for gas delivery to Europe. Growing oil prices are also increasing demand and prices for Russian pipe-making industry products.

### Machine Building

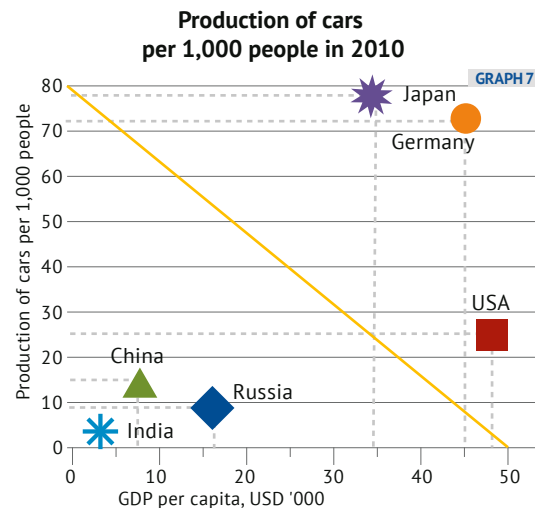
**Russian railway car building** demonstrated growth in 2010. Russian plants manufactured **47,900** railway cars, which is twice the level of 2009. On average, rolling stock manufacturing capacity was utilized at the level of 85%-95%.

According to National Railways Company (RZhD), the average wear for Russian rolling stock is about 70%, which has created a significant shortage of railcars and forced railways to use equipment beyond its recommended service life as the volume of railway transportation has steadily grown over the last four years.

Currently the railway car building industry is witnessing one of the highest growth rates in the Russian industrial sector.

**The Russian automotive sector** achieved **93.7%** growth, producing 1.4 million vehicles in 2010, compared to 0.7 million in 2009.

The steps taken by the government to stimulate demand for cars in Russia have had the intended effect. The vigorous recovery of the market resulted in an overall growth in car sales for all types of automobiles, reaching 2.08 million new units sold, an increase of 33% vs. 2009. **GRAPH 7**



### Construction Sector

For the first time in the last decade, in 2009 the Russian construction sector experienced a significant slowdown. A recovery began in 2010, primarily due to projects backed or financed by the government. According to preliminary estimates, construction of housing will not exceed 2009 levels, and will equal approximately 59 million sq m. The value of construction work performed in Russia in January-October 2010 totalled RUB 3.6 trillion, 0.4% higher than in 2009. The housing segment is seen as the most promising in the short term.

### Outlook

According to 2011 forecasts, the steel sector will be one of the fastest-growing Russian industries.





"After the construction of the Formula-1 track is completed, our sportsmen and motor sport fans will have a new excellent site for training and holding various competitions".

Vladimir Putin, October 14, 2011, during the meeting with Formula-1 promoter Bernie Ecclestone

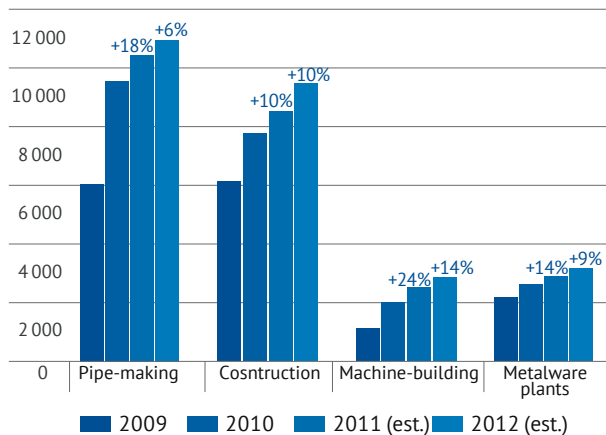


Photo -K. Brednikov

Growth will be driven by direct and indirect government support, such as expansion of military orders as well as higher volumes of housing and road construction. The so-called "national projects," in particular, construction of facilities for the 2014 Winter Olympics in Sochi, the APEC summit in Vladivostok (2012), the World University Games in Kazan (2013) and the World Football Championship (2018) will contribute significantly to demand in the coming years. All these construction projects will require large quantities of steel, which means Russian steel mill capacities will be significantly utilized.

The annual growth in steel consumption in Russia in 2011-2012 is expected to reach **5-10%**. [GRAPH 8](#)

**Russia's Steel Consumption by Sector, ,000 tonnes**



### Export

While production increased in 2010, MMK's export shipments for the year decreased **17%** compared to 2009. [GRAPH 9](#)

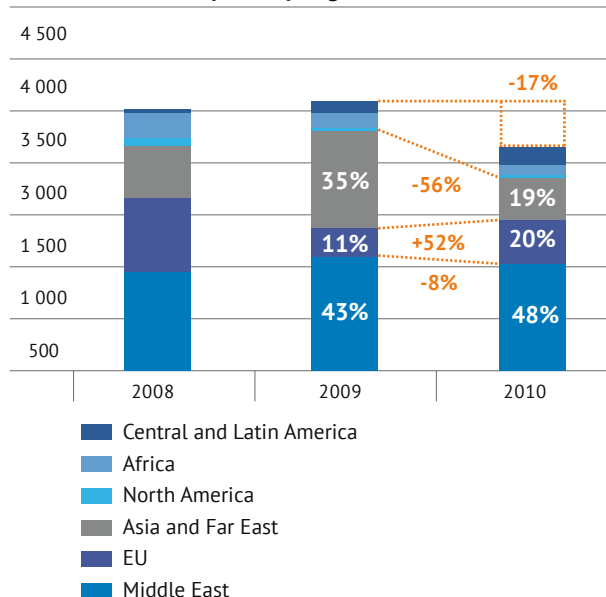
In 2010 steel shipments to Asia and the Far East decreased by **56%** compared to 2009 due to increased steel production in these countries.

This shifted the geography of our exports towards Italy, UK and Poland in Europe (**+52% compared to 2009**), as well as Brazil and Columbia in Central and Latin America (**+82% compared to 2009**), due to the more favourable pricing in these countries.

Exports to the Middle East decreased slightly (-8% vs. 2009), with the bulk of shipments going to Iran and Turkey.

MMK's key export products are **hot rolled (80%)** and **cold rolled (11%)** flat products.

**MMK's Exports By Region, ,000 tonnes**





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Any colour  
or hue for  
your  
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Colour coated products

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■ DRIVING FORCE BEHIND SUCCESS

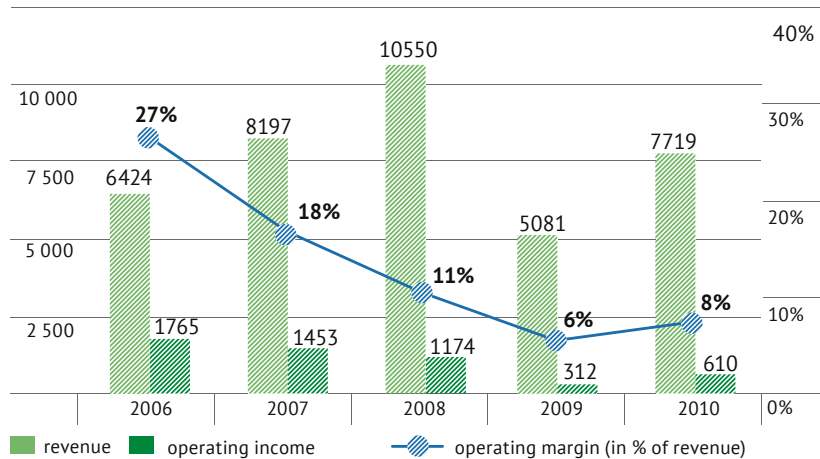
# Finances



In 2010 the Group's key IFRS financial performance indicators grew, including the operating profit margin, which rose from 6% in 2009 to 8% in 2010.

GRAPH 1

GRAPH 1 Evolution of the MMK Group's Revenue and Profit in 2006-2010



### MMK Group's Financial Results

In 2010 revenue increased by USD **2.639bn** (growth of 52% vs.2009) to USD 7.719 bn, including:

- Steel segment revenue, which increased by USD **2.533 bn**, and
- Coal segment revenue (external sales), which increased by USD **105 m**.

TABLE 1

EBITDA rose 23% to USD **1.606 bn**, and MMK's EBITDA margin was 21%. TABLE 2

TABLE 1

#### Financial Results by Segment

USD m	2009	2010	Change
Total revenue	5081	7719	2638
Steel segment's revenue	5029	7562	2533
Coal segment's revenue	94	556	462
sales to third parties	52	157	105
sales between segments	42	399	357
Steel segment's share	99%	98%	-1%
Coal segment's share (third party sales)	1%	2%	1%

TABLE 2

#### Consolidated financial results for 2009 and 2010

USD m	2009	2010	Change	
Revenue	5 081	7 719	2 638	52%
Cost of goods sold	3 940	5 952	2 012	51%
Gross profit	1 141	1 767	626	55%
Gross profit margin	22%	23%	1%	
Commercial expenses	429	565	136	32%
Administrative expenses	349	495	146	42%
Other operating expenses/income	51	97	46	90%
as a% of revenue	16%	15%	-1%	
Operating income	312	610	298	96%
Operating profit margin	6%	8%	2%	
EBITDA	1 309	1 606	297	23%
EBITDA margin	26%	21%	-5%	
Earnings before tax and minority share	99%	83%	-16%	
as a% of revenue	1%	17%	16%	
Profit for the period (before minority share)	219	232	13	6%
Net profit margin (before minority share)	4%	3%	-1%	

**96%** growth in operating income

**MMK's gross profit increased 55%** compared to 2009 (plus USD 626 m), and gross profit margin rose from 22% to 23%, as the revenue grew faster than cost of sales.

Commercial, administrative and other expenses increased by USD 328 m, while decreasing as a percentage of revenue from 16% in 2009 to 15% in 2010.

**Operating income stood at USD 610 m**, significantly higher than in 2009 (up 96%), with profit for the period rising 13% to USD 232 m. Net profit growth during the period was slower than operating income growth for several reasons:

- financing costs grew by USD 44 m;
- an FX loss of USD 24 m (compared to FX income of USD 9 m in 2009);
- The one-off effect in 2009 of the positive revaluation (USD 175 m) of the assets of OJSC Belon's (an MMK subsidiary).

The net profit margin stood at 3% in 2010 (1 percentage point down on 2009).

**TABLE 3** Steel Segment

USD m	2009	2010	Change +/- %	
Revenue from sales	5 029	7562	2533	50%
Cost of goods sold	3 909	6019	2110	54%
EBITDA	1 301	1 336	35	3%
EBITDA margin	26%	18%	-8%	
Operating income	337	458	121	36%
Operating margin	7%	6%	-1%	

In 2010 steel segment revenue grew by USD 2.533 bn (50% higher than 2009) to USD 7.562 bn. **TABLE 3**

This growth was driven by:

- Sales of OJSC MMK steel products, including:
  - A 17%, or USD 883 m, increase in steel sales;
  - Changes in the structure of sales: USD 167 m (steel plate increased from 7% to 13% as a percent of sales, and the share of downstream products rose by 5%);
  - growth of average sale price by 20%, or USD 1.186bn;
  - strengthening of the rouble against the US dollar: USD 197 m;
- Sales of other products: USD 101 m.

Production costs grew by 54%, or USD 2.210 bn, over 2009, reaching USD 6.019 bn. The main COGS drivers were:

- Higher production levels: USD 686 m;
- Increased prices for key raw materials: USD 1.135bn;
- Higher prices for goods provided by Russia's natural monopolies: USD 75 m;
- Strengthening of the rouble against the US dollar: USD 153 m;
- increase in other costs and expenses: USD 61 m.

**EBITDA margin at 21%**

**Steel segment 2010 EBITDA increased by USD 35 m (3% higher than 2009), reaching USD 1.336 bn.** **GRAPH 2**

**GRAPH 2** Factors Impacting Steel Segment EBITDA

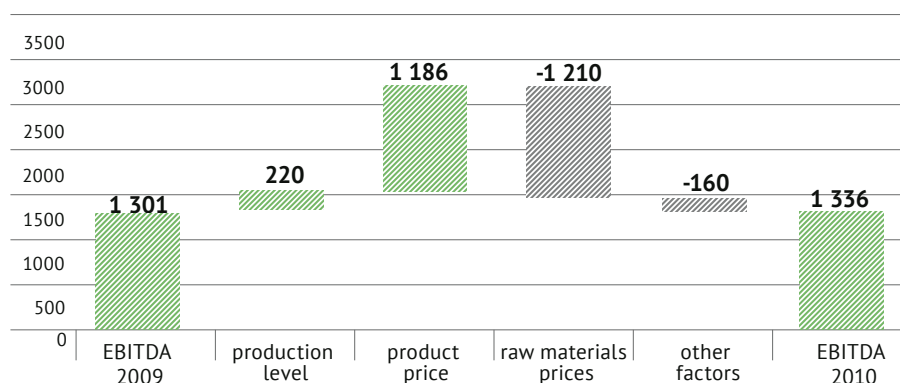


TABLE 4

## Coal Segment

USD m	2009	2010	Change +/-
Revenue from sales	94	556	462
Cost of goods sold	72	332	260
EBITDA	8	270	262
<i>EBITDA margin</i>	9%	49%	40%
Operating income	-25	152	177
<i>Operating margin</i>	-27%	27%	54%

The coal segment's revenue in 2010 was USD 556 m, with EBITDA at USD 270m and EBITDA margin at 49% for the reported period. Operating profit margin for 2010 was 27%. [TABLE 4](#)  
MMK began consolidating Belon from Q4 2009.

The coal segment's  
revenue (Belon) reached  
**USD 556 m**

## Analysis of MMK Group's Financial Position

## Aggregated Balance Sheet for 2009 – 2010

TABLE 5

млн. USD	31.12.2009		31.12.2010		Change	
	value	%	value	%	+/-	%
<b>Assets</b>						
Current assets	2 430	16%	2 985	18%	555	23%
cash and short-term financial investments	386	3%	708	4%	322	83%
receivables	839	6%	791	5%	-48	-6%
inventories	958	6%	1 236	7%	278	29%
Non-current assets	12 419	84%	13 753	82%	1 334	11%
long-term financial investments	627	4%	1 051	6%	424	68%
property, plant and equipment	11 292	76%	12 226	73%	934	8%
Total assets	14 849	100%	16 738	100%	1 889	13%
<b>Liabilities</b>						
Short-term liabilities	1 777	12%	2 084	12%	307	17%
payables	928	6%	971	6%	43	5%
short-term loans and borrowings	808	5%	1 074	6%	266	33%
Long-term liabilities	2 747	18%	3 968	24%	1 221	44%
long-term loans and borrowings	1 266	9%	2 454	15%	1 188	94%
Equity	10 325	70%	10 686	64%	361	3%
Total liabilities	14 849	100%	16 738	100%	1 889	13%

The MMK Group has a sustainable financial position evidenced by relevant financial indicators.

TABLE 6

## MMK Group's Key Financial Indicators for 2009-2010

	2009	2010	Change +/-
Financial stability indicators			
Equity to assets ratio	70%	64%	-6%
Short-term loans and borrowings to assets ratio	5%	6%	1%
Long-term loans and borrowings to assets ratio	9%	15%	6%
Liquidity, unit fractions			
Current liquidity ratio	1,4	1,4	0,0
Absolute liquidity ratio	0,2	0,3	0,1
Quick liquidity ratio	0,8	0,8	0,0
Turnover, days			
Inventories turnover	89	76	-13
Receivables turnover	60	37	-23
Payables turnover	86	60	-26
Sales margins, %			
Sales margin	6%	8%	2%
Net income margin	4%	3%	-1%
EBITDA margin	26%	21%	-5%

## Assets

As of 31 December 2010, MMK Group's total assets were USD 16.7 bn, an increase of 13% on the year beginning. [TABLE 5](#)

**Fixed assets increased by 8%** (USD 934 m higher than in 2009), a result of the Group's modernization efforts.

The value of long-term financial investments grew by 68%, mainly due to a positive revaluation of shares of Fortescue (up USD 424 m).

Current assets grew 23% to USD 2.985 bn.

**Inventories increased by USD 278 m** (29% higher than in 2009) to USD 1.236 m, including the following changes:

- growth of USD 556 m due to a 51% increase in costs;
- decrease of USD 278 m due to a 13 days' decrease in turnover period.

**Receivables decreased USD 48 m**, (6% down on

2009), to USD 791m, including the following changes:

- growth of USD 48 m due to a 52% increase in revenue;
- decrease of USD 96 m due to a decrease in turnover period of 23 days.

The turnover periods for inventories and receivables declined as a result of measures to improve management of working capital.

MMK's current liquidity ratio did not change in 2010, remaining at 1.4 at year end. The company seeks to maintain this ratio between 1 to 2. The absolute liquidity ratio increased from 0.2 to 0.3; MMK seeks to maintain this ratio at 0.1 or higher. [TABLE 6](#)

## Liabilities

The Company's equity grew by 3% y-o-y for 2010, due to an increase of USD 128 m in retained profit and the positive revaluation of Fortescue shares.

Payables increased by USD 43 m (a 5% increase from 2009) to USD 971 m, with the following changes:

- increase of USD 86 m due to a 51% increase in costs;
- reduction of USD 43 m due to a decrease in turnover period of 26 days.

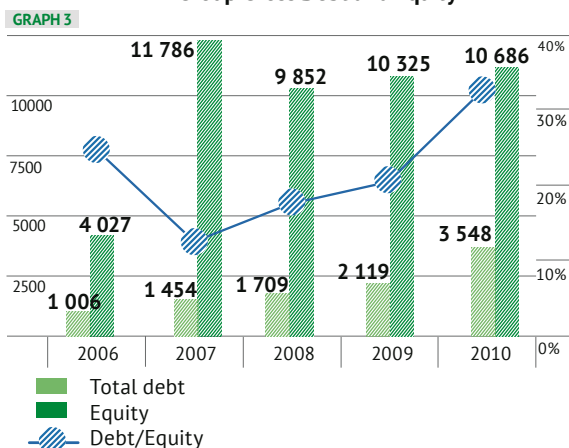
The share of equity in the structure of financing sources is consistently high, and amounted to 64% at 31 December 2010.

## Debt Management

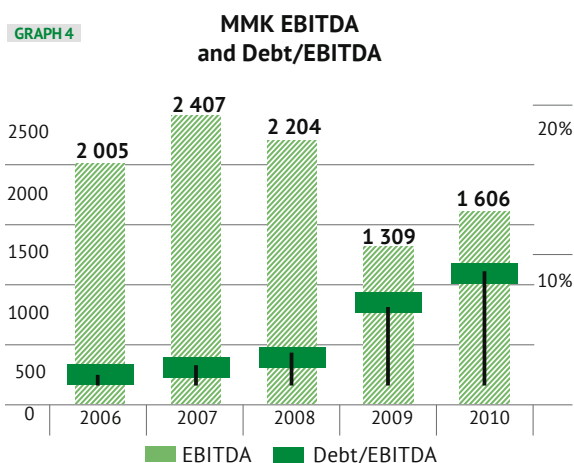
While gross debt increased in 2010 as a result of large-scale investment projects, the Company's debt load remains at a relatively low level. The share of borrowings on the balance sheet grew from 14.2% to 21.4%, with the debt to equity ratio standing at 1:3.

The EBITDA to interest expense ratio rose to 19.1 in 2010. The EBITDA to debt servicing costs ratio rose to 4.3 in 2010. [GRAPH 5](#)

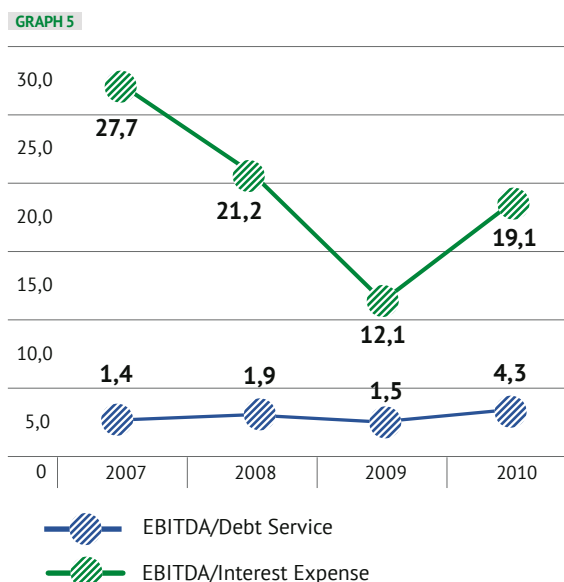
MMK Group Gross Debt and Equity



Gross debt, including financial leasing, amounted to USD 3.5 bn as of 31 December 2010. The debt to EBITDA ratio stood at 2.21, compared to 1.65 in 2009. [GRAPH 4](#)



## Debt Service Costs and Interest Expenses

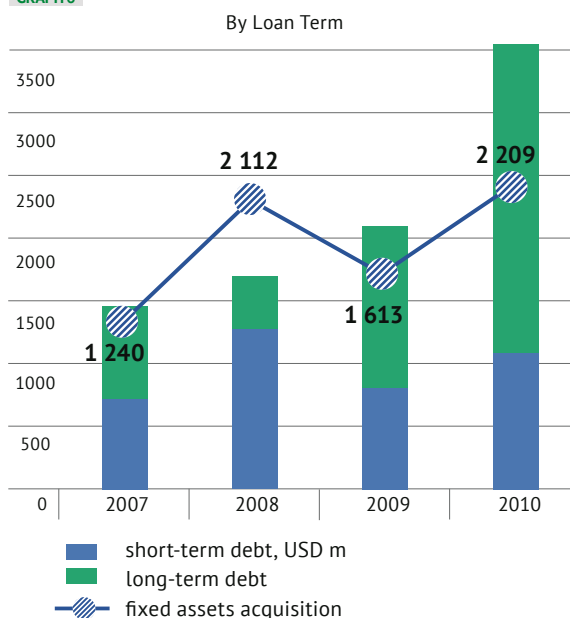


### MMK Group Debt Policy Highlights:

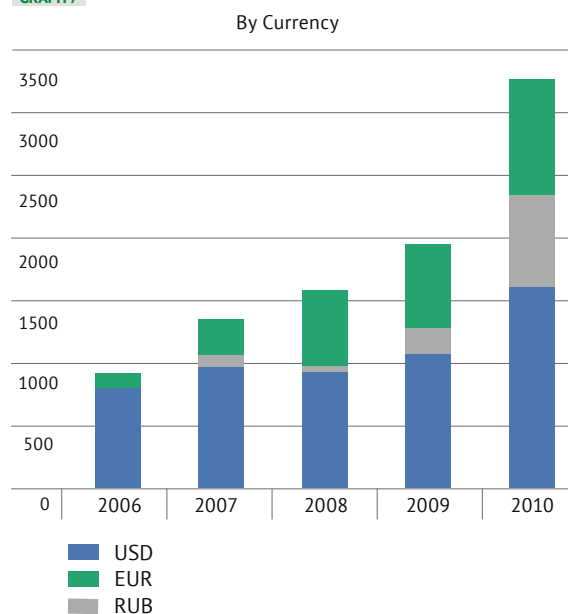
- Achieve maximum reduction in borrowing needs by financing day-to-day operations from the Company's own cash flow to the greatest degree possible;
- Secure long-term financing for contracts related to the modernization program in order to ensure the Company's financial sustainability; [GRAPH 6](#)
- Diversification of funding between three key currencies (US dollars, Euro and Roubles) in order to minimize currency risks; [GRAPH 7](#)
- Strict adherence to debt covenants, including monitoring and compliance with covenants relating to MMK's operations.

## MMK Group Debt Structure

GRAPH 6



GRAPH 7



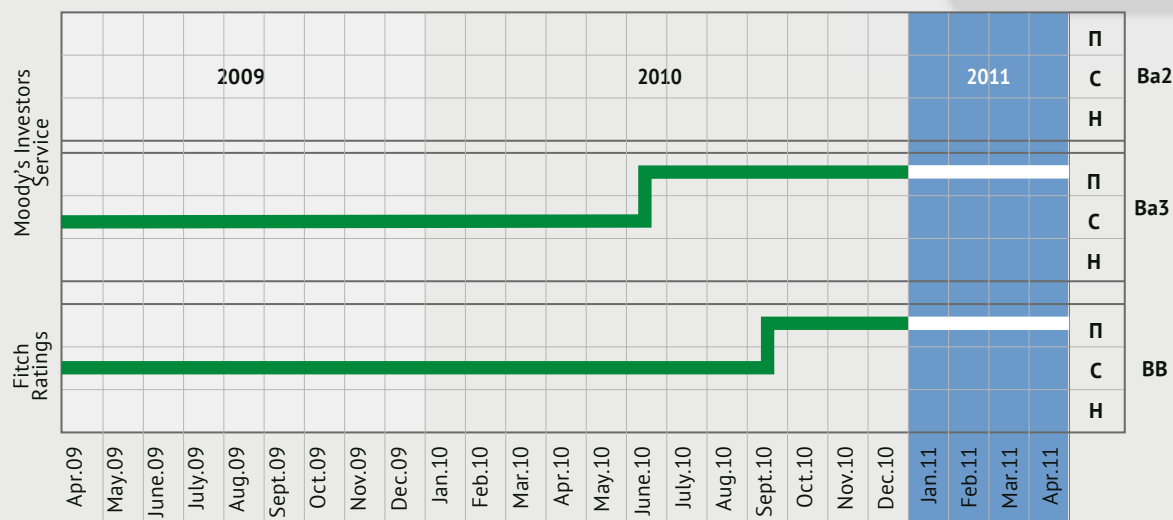
Changes in the debt policy led to changes in the structure of the Company's debt, which is reflected in the increased share of long-term debt and loans denominated in Euros.

MMK's responsible debt policy has helped the Company to achieve high credit ratings from various credit rating agencies. In July 2010 Moody's changed its outlook for MMK from **Ba3/Stable** to **Ba3/Positive**, and in September Fitch Ratings raised its outlook from **BB/Stable** to **BB/Positive**.

## Evolution of MMK Ratings

GRAPH 8

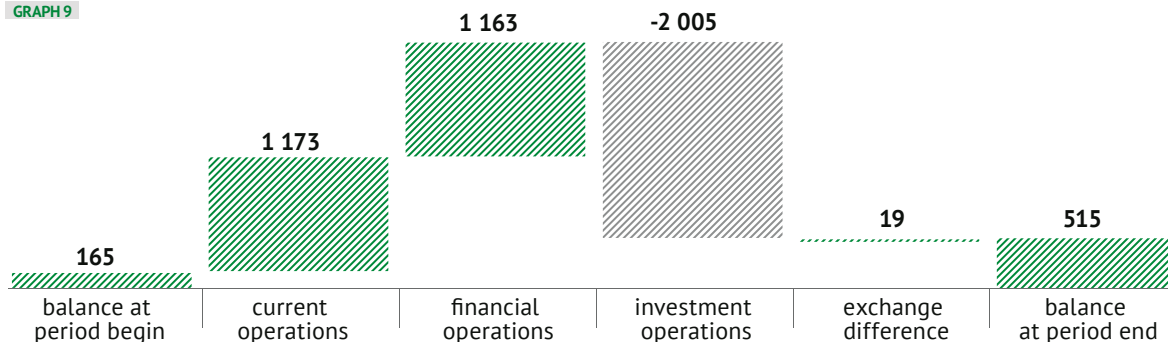
EVENTS AFTER THE ACCOUNTING DATE



## Cash Flow Structure in 2010

### Cash Flow Analysis

GRAPH 9



Cash and cash equivalents at the beginning of the period equalled USD 165 m. [GRAPH 9](#)

Cash generated from operating activities in 2010 was USD 1.173 bn, USD 308 m higher than in 2009. Net income for the period was USD 232 m (USD 13 m higher than 2009).

Cash used in investment activities was USD 2.005 bn in 2010.

### Investments in fixed assets increased in 2010 to USD 2.209 bn (growth of 37% over 2009). [TABLE 7](#)

When compared to depreciation and amortisation of USD 826 m for 2010, the ratio of capital expenditure to depreciation illustrates MMK's ambitious modernization program aimed at revamping the Company's production assets and introducing new technologies.

TABLE 7

Investments targets	Amount (USD m)
OJSC MMK	1276
MMK's Turkey Project	658
OJSC Belon	100
Project in St.Petersburg	58
Other Group companies	117
<b>Total</b>	<b>2209</b>

Cash inflows from investment activities (USD 225 m from disposals) primarily came in the form of income from the sale of Belon assets (Listviazhnaya Mine and Coal Cleaning Plant), with the total value of the transaction at USD 280 m (the remaining amount due for payment in 2011).

**Record capex  
of USD 2.209 bn**

In order to support the Company's ambitious modernization program, MMK's management decided to secure additional financing. The cashinflow from financing activities totalled USD 1.163 bn, as a result of:

- **rouble bond issuance totalling USD 428 m** (USD 273 m issued in April at 7.65% p.a. and USD 161 m issued in September at 6.47% p.a.);
- loans amounting to USD 3.011bn;
- repayment of debt in the amount of USD 2.024 bn;
- cash inflow from other operations amounting to USD 252 m.

In 2010 the net increase in cash and cash equivalents was USD 331 m, **with total cash as of 31 December, 2010, totalling USD 515 m.**

## EVENTS AFTER THE ACCOUNTING DATE

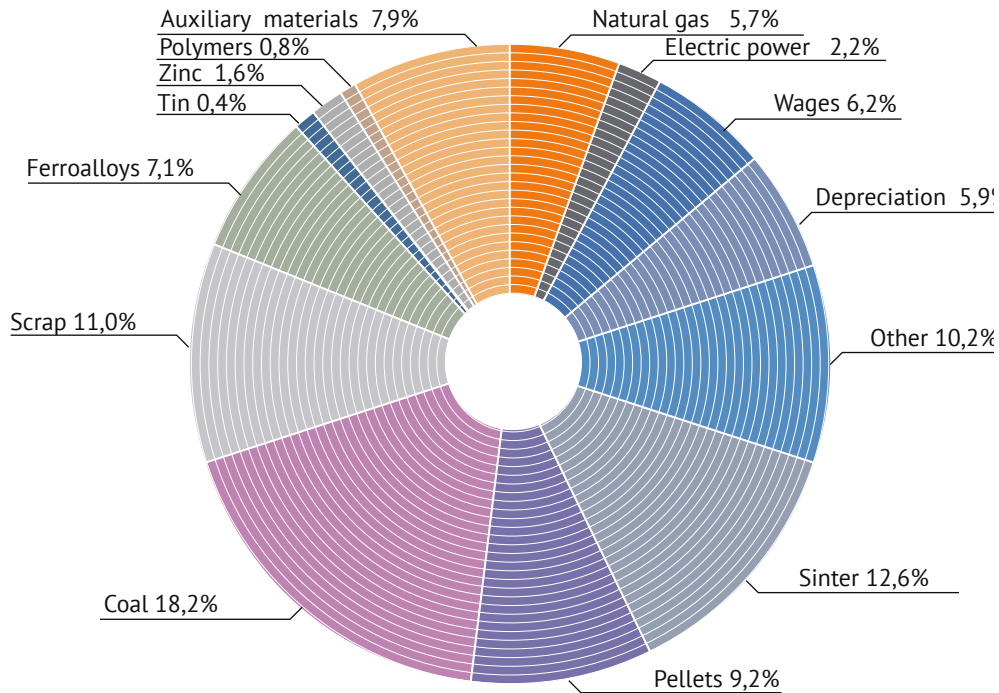
### MMK Group's Financial Results for 1Q 2011

USD m	1Q 2010	1Q 2011	change	
			+/-	%
Sales revenue	1652	2 216	564	25%
EBITDA	374	403	29	7%
in % of revenue	23%	18%	-4	n.p.
Operating income	135	155	20	13%
in % of revenue	8%	7%	-1	n.p.

# Raw Materials and Energy Supplies

NEW

MMK's production and financial results are directly linked to the supply of raw materials and energy resources. Raw materials account for 62% of the production cost of commercial goods.



Sintering raw materials are iron ore concentrates for production of sinter. Pellets are the product of iron ore grinding and pelletizing. Sinter and pellets are iron-containing raw materials for processing in a blast furnace. In 2010 the key supplier of both types of raw materials (70% sinter materials and 100% pellets) was the company ENRC, with which a contract was signed for delivery of iron ore materials from Sokolovsko-Sarbaiskiy Ore Mining and Processing Plant in the city of Rudnyi, Republic of Kazakhstan, for a period up to 2017.

The share of MMK's captive Fe-containing raw materials in 2010 was up to 30%. Ore mining at captive deposits in the vicinity of Magnitogorsk and recycling of waste materials provided MMK with 3.3 m tonnes of Fe-containing raw materials in 2010. The MMK subsidiary Bakal Mine Administration also supplied 1.4 m tonnes of iron ore concentrate.

Coking coal concentrate is used for production of coke – the principal fuel used in the blast furnace process. The key supplier of coking coals is Belon, a member of

the MMK Group. In 2010 supplies from Belon covered 35% of MMK's coking coal requirements. Other coking coal suppliers include Rospadskaya (a 5-year contract), Siberian Business Union Holding Company, Sibuglemet (a 5-year contract), Vorkutaugol and Anzherskaya Coal Dressing Plant.

The third most important raw material is scrap metal. The sole supplier to MMK is CJSC Profit, a Group subsidiary. Profit has been engaged in the collection and preparation of scrap for 14 years. It is one of the biggest companies in its sector, with an extensive network of scrap processing plants throughout Russia. Profit supplied 2.2 m tonnes (61% of total OJSC MMK consumption) in 2010. MMK's own scrap covers the remaining 39% of scrap consumed by the Company.

Ferroalloys – alloy combinations of Fe with other elements (Cr, Si, Mn, Ti, etc.) - are used for deoxidation and alloying of steel. In 2010 MMK consumed 144 thousand tonnes of ferroalloys. The Company's largest supplier is Transnational Company Kazchrome (42% of ferroalloys in 2010).

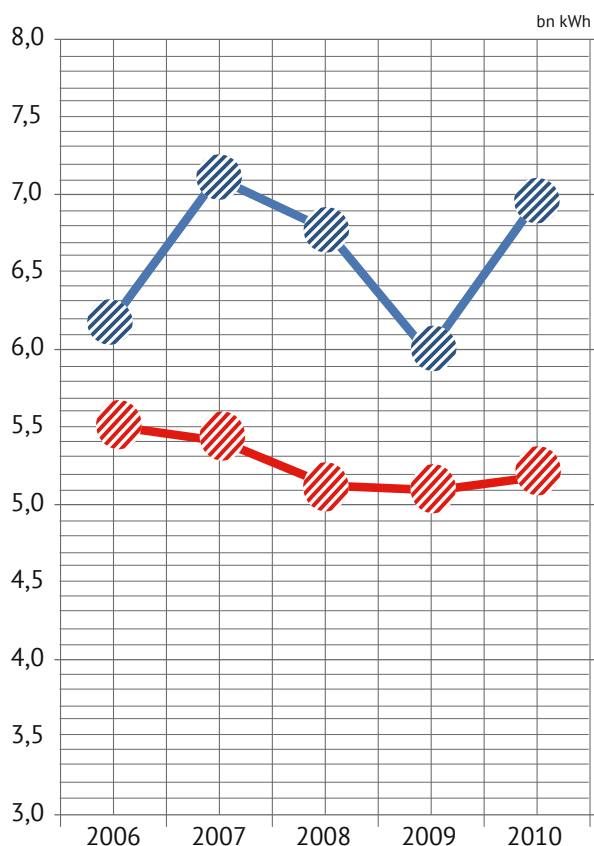
Zinc coating enhances steel's resistance to corrosion. The Chelyabinsk Zinc Plant is the key supplier of zinc to MMK. In 2010 the consumption of zinc amounted to 37 thousand tonnes.



Aluminium is used at MMK as an alloying element for production of certain steel grades and also as an additive for hot-dip zinc baths. Aluminium consumption in 2010 amounted to 26 thousand tonnes, of which 50% was supplied by UCRusalTrading House.

Tin is used for tin plating. In 2010 MMK consumed 1,309 tonnes of tin. MMK's key supplier of tin is Novosibirsk Integrated Tin Works (47% in 2010).

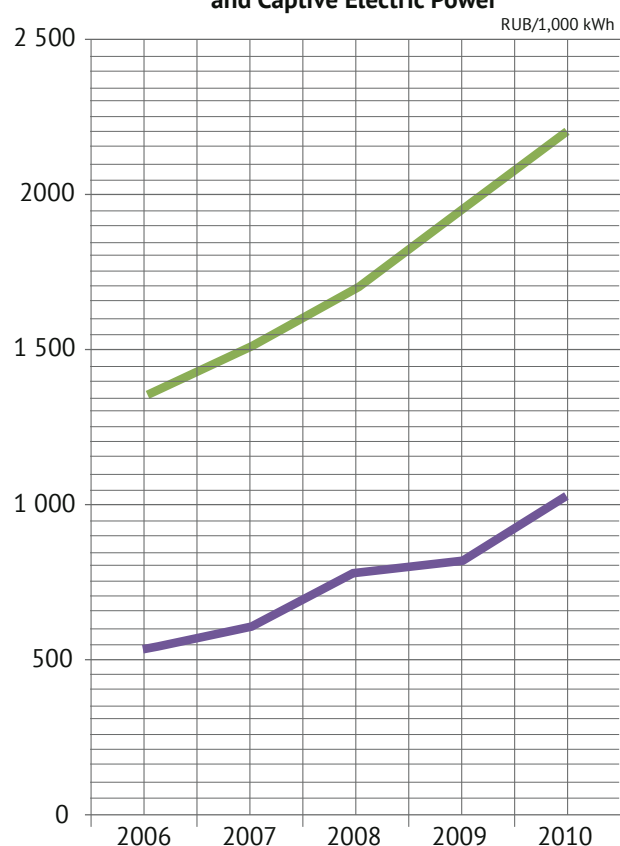
MMK's long-term goal is to achieve self-sufficiency in electric power. The Company currently has 657 MW of power generating capacity. The use of captive electric power, which has a production cost 2.1 times lower than market prices, MMK was able to save RUB 6.1 billion in 2010. MMK's self-sufficiency in electric power reached 75% in 2010.



**Power Supply to MMK**



 Captive power  
 Total power consumption

**Price Difference between Purchased and Captive Electric Power**



 cost of captive power  
 price of purchased power

# "Good luck and bon voyage!"



*It was no accident that Magnitogorsk became the venue of a session of the Presidential Commission for Modernization and Technological Development which took place on 30 March 2011, under the chairmanship of President Dmitry Medvedev.*

The Magnitogorsk Iron and Steel Works is a vivid example of how Russia is implementing the strategy of modernization. The country's largest single-site steel making enterprise located on the geographical boundary between Europe and Asia, MMK has for many years been upgrading its production lines and building highly productive facilities. Thanks to this large-scale modernization effort, the Company has been able to minimize the negative impact of the recent economic crisis and preserve its position of the country's leading steel producer.

Before the start of the Commission's session Mr. Medvedev was able to see for himself the scope of MMK's technological overhaul. The President visited one of MMK's key production divisions, the BOF Shop, and then was shown around MMK's pride – the 5,000 mm Mill which rolls heavy-gauge steel plate for making large-diameter pipes.



The Head of the State also highly praised MMK's efforts to complete another state-of-the-art facility, the 2,000 cold rolling mill which will produce cold rolled sheet for the automotive sector. The President put his signature on the plan of the mill and wished "good luck and bon voyage" to the future facility.


http://twitter.com/#!/blog\_medvedev

http://twitpic.com/4hbjon


Click here to login or create an account >

**twitpic**

Sign in with Twitter

 **@MedvedevRussia**  
Дмитрий Медведев April 6, 2011

Tweet 270



**Last week visited Magnitka.  
It's a very big and complex operation.  
One of the photos.**

The session of the Commission for Modernization and Technological Development, apart from the Russian President and Governor of the Chelyabinsk Region Mikhail Yurevich, was attended by First Deputy Head of the President's Administration Vladislav Surkov, Aide to the President Arkady Dvorkovich, Deputy Chairman of the Russian Government Viacheslav Volodin, RF Minister of Economic Development Elvira Nabiullina, RF Minister of Education and Science Andrei Fursenko, RF Minister of Industry and Trade Victor Khristenko, the President's Plenipotentiary Representative in the Urals Federal District Nikolai Vinnichenko, Chairman of the MMK Board of Directors Victor Rashnikov, Mayor of Moscow Sergei Sobyenin, General Director of the Rosnanotekh State Corporation Anatoly Chubais, General Director of the Rosatom State Corporation Sergei Kirienko, President of the ONEXIM Group Mikhail Prokhorov, President and Board Chairman of Sberbank German Gref, Chairman of the State Duma Committee for Civil, Criminal and Procedural Legislation Pavel Krashenninikov, OJSC MMK's Managing Director Yuri Bodiayev, and Rector of the Magnitogorsk Technological University Valery Kolokoltsev.



# CORPORATE GOVERNANCE

## Corporate Governance Objectives

OJSC MMK conducts its business in line with Russian and international corporate governance standards. This fact, along with the Company's strong financial performance, makes it a reliable and trustworthy partner for Russian and foreign investors.

MMK's corporate governance guidelines and procedures are set out in the Company's Corporate Governance Code (approved by the OJSC MMK Board of Directors on September 21, 2001).  
[http://www.mmk.ru/corporate\\_governance/internal\\_documents/code\\_of\\_corporate\\_governance/](http://www.mmk.ru/corporate_governance/internal_documents/code_of_corporate_governance/)

In order to make sure that the Company's governing bodies and officers comply with the laws and bylaws guaranteeing exercise and protection of the Company shareholders' rights and interests, a post of the Corporate Secretary was introduced in 2003.

The guidelines are as follows:

- protection of shareholder rights and interests;
- equal treatment of all shareholders;
- mutual trust and respect for all interested parties;
- transparency and timely disclosure of information on the Company's strategy and activities;
- bona fide management practices aimed at the long-term prosperity of the Company;

- minimization of the Company's environmental impact;
- maintaining a consistent corporate policy with respect to all subsidiary and associated companies or other legal entities in which MMK is a participant, founder or member.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and Russian Accounting Standards (RAS).

MMK discloses information in Annual Reports, Quarterly Reports, lists of affiliated parties, statements on material developments and any information which may influence the Company's share price.

Information is disclosed in accordance with the Company's Regulations on Information Policy available at:  
[http://www.mmk.ru/corporate\\_governance/internal\\_documents/group\\_documents/](http://www.mmk.ru/corporate_governance/internal_documents/group_documents/).

The Company is also implementing a programme to enhance its corporate governance, which was approved by the Board on September 24, 2010.

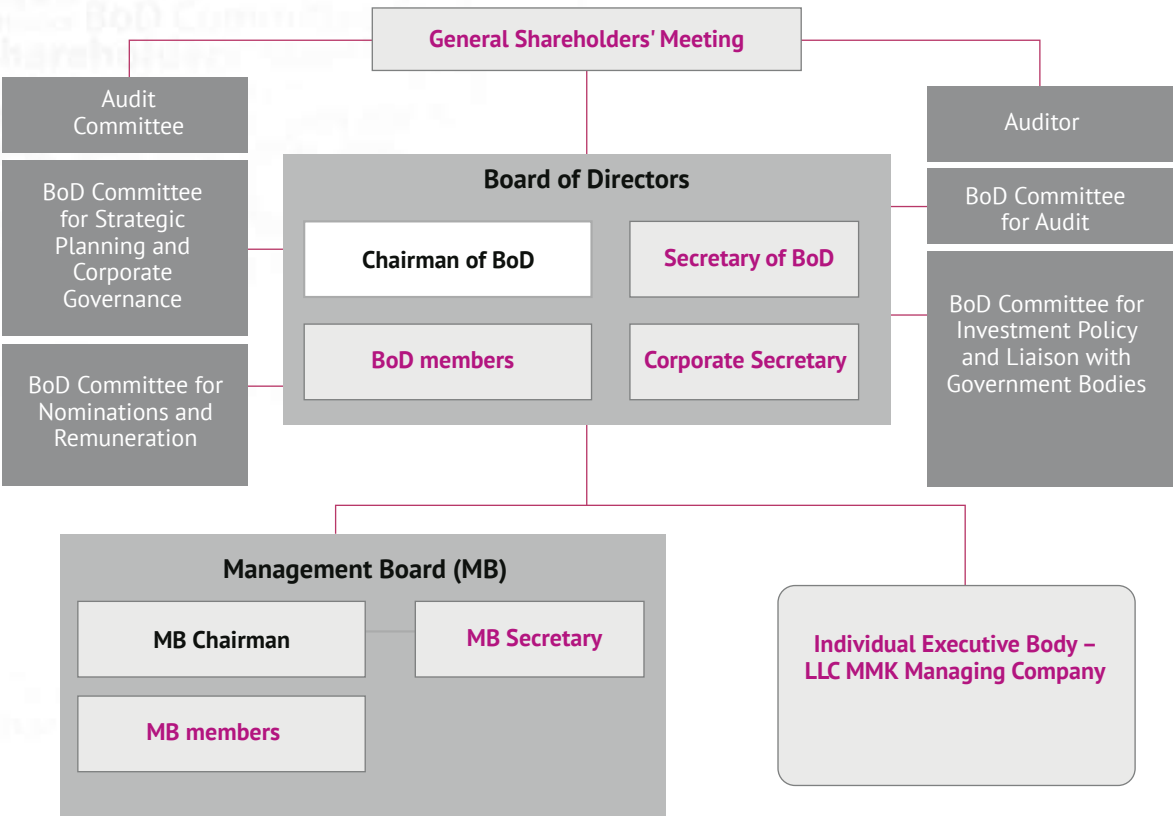
## MMK Corporate Governance Structure

The General Shareholders' Meeting is the supreme governing body. The Board of Directors oversees the Company's general management and also sets the strategy for future development. The Management Board and LLC MMK Managing Company (the executive bodies) are in charge of the Company's day-to-day operations. In accordance with Russian legislation and international standards, an independent Auditor and the Audit Committee supervise the Company's financial and economic activities.

Corporate bylaws regulating the operation of the governing and supervision bodies can be found on the Company's website at:  
[http://www.mmk.ru/corporate\\_governance/internal\\_documents/regulations\\_approved/](http://www.mmk.ru/corporate_governance/internal_documents/regulations_approved/)

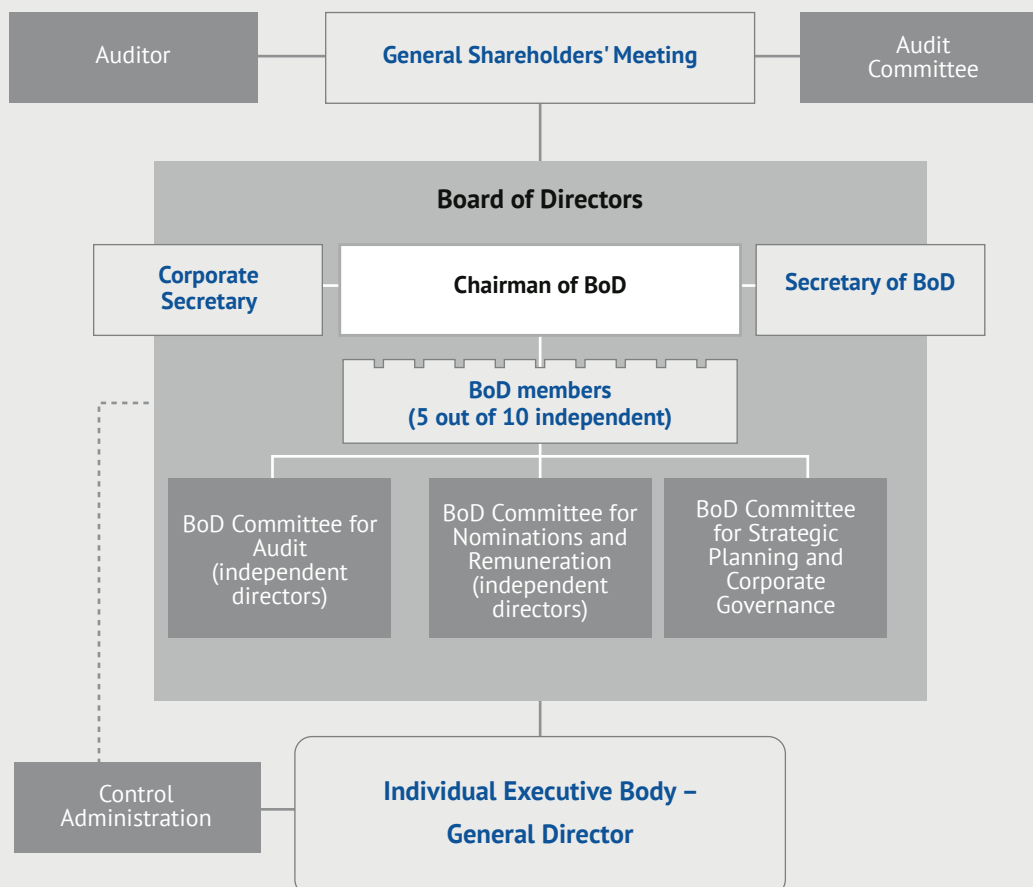
and [http://www.mmk.ru/corporate\\_governance/internal\\_documents/group\\_documents/](http://www.mmk.ru/corporate_governance/internal_documents/group_documents/).

MMK Corporate Governance Structure



MMK has reached a new stage in its development as a large diversified company. In order to adapt the MMK Group's management system to the changed conditions, the Company's annual general meeting on 20 May 2011 approved a new revision of the Charter. The Board of Directors' responsibilities have been expanded to include, in addition to determining the Company's priorities and strategy, approval of all transactions with a value in excess of 0.3% of the Company's assets' book value as of the latest accounting date. The management structure in accordance with the newly revised Charter is shown below:

**MMK Corporate Governance Structure ( 20.05.2011)**



### Shareholders' Structure

The authorized capital of MMK totals RUB 11,174,330,000 and is comprised of 11,174,330,000 ordinary registered shares with a par value of 1 rouble each. All shares are placed securities. The Company is entitled to place, in addition to those already placed, ordinary shares amounting to 26,299,840,577 shares, with a par value of 1 rouble each (declared shares). Declared ordinary shares grant the same rights as placed ordinary shares.

Equity capital structure as of 04.04.2011

shareholder's name	Share, % of equity capital	
	02.04.2010	04.04.2011
Mintha Holding Limited*	45	45
Fulnek Enterprises Limited*	41	41
The Bank of New York International Nominees **	9,7	9,7
Other shareholders	4,3	4,3
Total shares	100	100

\* The company's beneficiary is V.F. Rashnikov, Chairman of the OJSC MMK Board of Directors.

\*\* Beneficiaries are owners of global depository receipts listed on the London Stock Exchange

OJSC MMK's management has no information about any shareholders with over 5% of shares except as disclosed above.

The Company calculates and pays dividends in accordance with Russian laws and the Regulations on Dividend Policy approved by the Board of Directors on 14 February 2008, which can be found at: [http://www.mmk.ru/corporate\\_governance/internal\\_documents/group\\_documents/](http://www.mmk.ru/corporate_governance/internal_documents/group_documents/).

MMK's dividend policy is based on the balance of shareholders' interests and the Company's requirements for growth and technology upgrades.

The Annual Report contains information about accrued dividends in the section "Information for Shareholders and Investors".

#### General Shareholders' Meeting

Holders of the Company's ordinary shares, in accordance with the Federal Law "On Joint Stock Companies" and OJSC MMK's Charter, have the right to participate in General Shareholders' Meetings with the right to vote on all matters raised at the meeting, to receive dividends or a part of the Company's property at its liquidation, and other rights provided for by the above mentioned law.

Shareholders who in their totality own not less than 2% of the Company's ordinary registered shares are entitled to propose issues for the agenda of Annual General Shareholders' Meetings and to nominate candidates to the Board of Directors whose number shall not exceed the number of members of that body. Such proposals must be submitted to the Company not later than 40 days following the end of the financial year.

Interfax and AK&M, authorized agencies for information disclosure in the stock market, named MMK the winner of the annual competition "For Active Corporate Policy in the Area of Information Disclosure".

According to the information transparency research conducted by Standard&Poor's, in 2010 the Company rose from the 3rd to 2nd position among Russia's 90 largest companies.

Shareholders owning not less than 10% of the Company's ordinary registered shares are entitled to request the Company's Board of Directors to hold an Extraordinary General Shareholders' Meeting.

Shareholders exercise their rights related to the Company's management by voting at General Shareholders' Meetings.

In 2010, the Company held one Annual General Shareholders' Meeting.

The following issues were on the agenda of the General Shareholders' Meeting held on 21 May 2010:

- approval of the annual report, annual financial statements, including profit and loss accounts of the Company, as well as profit distribution, including dividend payments, and losses distribution according to the results of 2009;
- election of members of the Board of Directors;
- election of members of the Audit Committee;
- approval of the Auditor;
- determination of the size of remuneration and compensation to be paid to the members of the OJSC MMK Board of Directors;
- determination of the size of remuneration and compensation to be paid to the members of the Audit Committee;
- approval of OJSC MMK's revised internal documents regulating the operation of OJSC MMK's bodies: "Regulations on OJSC MMK's General Shareholders' Meeting", "Regulations on OJSC MMK's Board of Directors";
- approval of interested party transactions.

Reports on the results of voting at the Shareholders' Meeting and relevant materials can be found at: [http://www.mmk.ru/corporate\\_governance/the\\_structure\\_of\\_government/shareholders\\_meeting/1302/](http://www.mmk.ru/corporate_governance/the_structure_of_government/shareholders_meeting/1302/).

#### EVENTS AFTER THE ACCOUNTING DATE

An extraordinary general shareholders' meeting on 20 January 2011 approved a number of interested party transactions.

# Board of Directors

**Positions on the Board of Directors are filled by candidates with broad knowledge required to take strategic decisions, including decisions on environmental and social risks and opportunities.**

## Information on the Board of Directors

The OJSC MMK's Board of Directors consists of 10 members, five of whom are independent. Victor F. Rashnikov is Chairman of the OJSC MMK's Board of Directors.

No changes in the composition of the Board of Directors have been made during the accounting period (21.05.2010 – 01.04.2011).

The Board of Directors has the overall responsibility for the management of the Company, with the exception of matters which are addressed at the General Shareholders' Meeting. The Board also oversees the implementation of resolutions adopted by the General Shareholders' Meeting or the Board of Directors.

The responsibility of the Board of Directors is provided for by the Company's Charter which can be found on the MMK website at:

[http://www.mmk.ru/corporate\\_governance/internal\\_documents/index.php](http://www.mmk.ru/corporate_governance/internal_documents/index.php).

## Election of members of the Board of Directors:

Members of the Company's Board of Directors are elected by the General Shareholders' Meeting by cumulative voting for a term until the following Annual General Shareholders' Meeting. The size of the Board is determined by the Company's Charter, and is currently 10 persons. Members of the Company's collective executive body must not make up more than one fourth of the Company's Board of Directors.

In line with the best Russian and international corporate governance practices, independent directors have been elected to the Board of Directors to enhance supervision, transparency and efficiency of the Company's governing bodies' operation. Independent directors include Peter Charow, Sir David Logan, Andrey M. Gorodisskiy, Kirill Y. Liovin and Zumrud Kh. Rustamova.

Members of the Company's Board of Directors are deemed to be independent directors if they meet the following requirements:

- members who at the moment of election or for a term of one year prior to it are not or have not been officers or employees of the Company;
- members who are not officers of another company in which any of the Company's officers is a member

of the committee of such company's board of directors for nominations and remunerations;

- members who are not spouses, parents, children, brothers or sisters of the Company's officers;
- members who are not affiliated persons of the Company other than members of the Company's Board of Directors;
- members who are not parties to commitments with the Company under which they can acquire property or receive monetary funds the value of which amounts to 10 or more per cent of the aggregate annual income of such persons, with the exception of remuneration for participation in the activities of the Board of Directors.
- members who are not representatives of the State, i.e. persons who represent the Russian Federation or its administrative subdivisions.

To be nominated for election to the Board of Directors, a candidate must have knowledge sufficient for making strategic decisions, including on issues related to environmental and social risks and responsibilities.

## Decision making

In taking decisions at a meeting of the Company's Board of Directors, each Board member shall have one vote. Voting at meetings of the Board of Directors with respect to issues on the agenda for the meeting shall be open and by name.

It is prohibited to transfer votes from members of the Board of Directors to other persons, including other Board members. Decisions of the Board of Directors shall be taken by majority of the Board members taking part in the meeting unless otherwise provided for by the Law "On Joint Stock Companies", the Company's Charter and relevant Regulations. In determining the quorum and the results of voting on agenda items, the Board shall take into account the opinion of any Board member absent from the meeting, submitted in writing.

Such a Board member shall submit his/her written opinion to the Chairman of the Board prior to the Board meeting. The Board Chairman shall announce the written opinion of such a Board member prior to voting on each issue of the meeting's agenda. In case the Board member, who submitted his/her opinion prior to the meeting, is present at the meeting, his/her written opinion shall be disregarded.

## EVENTS AFTER THE ACCOUNTING DATE

In keeping with the highest international standards, the Company is perfecting its corporate governance: MMK's shareholders at their meeting on 20 May 2011 approved a new Board of Directors meeting the independence requirements set out in the UK Corporate Governance Code. The new Board includes five directors meeting the independence criteria, among them, the newly elected directors Bernard Sucher and David Herman.

Composition of the Board of Directors Elected at the Annual General Shareholders' Meeting Held on 21 May 2010  
(positions as of 1 January 2011)



## Victor F. Rashnikov

(born in 1948) – Chairman of the OJSC MMK Board of Directors, President of LLC MMK Managing Company; Russian citizen; member of the Board of Directors since 2 February 1993; has represented the interests of an OJSC MMK shareholder, Mintha Holding Limited; since 1999, President of the Metallurg Ice Hockey Club; since 2001, member of the Management Board of the Autonomous Non-Profit Organisation Medical Care Unit of the City Administration of Magnitogorsk and OJSC MMK; since 2005, member of the Board of Directors of the World Steel Association (formerly International Iron and Steel Institute); since 2008, member of the Management Board of Directors of the LLC Continental Hockey League; since 2010, President of the Non-profit Partnership Konsortium Russkaya Stal; and member of the Chelyabinsk Region's Legislative Assembly.

Graduate of the Magnitogorsk Institute of Mining and Metallurgy (1974), metallurgical engineer; graduate of the Magnitogorsk Academy of Mining and Metallurgy (1993), manager; D.Sc (Technology); Professor.



## Andrey M. Gorodisskiy

**independent director**

(born in 1956) – Managing Partner of Andrei Gorodisskiy and Partners Law Firm; Russian citizen; member of the Board of Directors since 22 April 2005; the candidate was proposed by the OJSC MMK Board of Directors; since 2000, General Director of LLC Business and Law; since 2009, member of the Board of Directors of OJSC Marine Arctic Engineering-Geological Expeditions.

Graduate of Moscow State Institute of International Relations in 1978, PhD in international law.



## Kirill Y. Liovin

**independent director**

(born in 1968), Russian citizen; member of the Board of Directors since 21 April 2005; since 2009, member of the Supervisory Board of OJSC Belpromstroibank; since 2010, member of the OJSC Aeroflot Board of Directors.

Graduate of the Moscow Aviation Institute in 1990.



## **Zumrud Kh. Rustamova**

### **independent director**

(born in 1970), Deputy CEO of OJSC Polymetall UK; Russian citizen; member of the Board of Directors since 21 April 2006, proposed by the OJSC MMK Board of Directors; since 2008, member of the Board of Directors of OJSC Sheremetyevo International Airport; since 2009, member of the Board of Directors of OJSC KHANTY-MANSIYSK BANK, and member of the Board of Directors of OJSC Polyus-Zoloto. Graduate of the Moscow Institute of Economics and Statistics in 1992.



## **Rafkat S. Takhautdinov**

(born in 1958), First Vice-President of LLC MMK Managing Company for Strategic Development and Steel Production; Russian citizen; member of the Board of Directors since 21 May 1999; represents a shareholder of OJSC MMK, Mintha Holding Limited.

Graduate of the Magnitogorsk Institute of Mining and Metallurgy in 1986 with a degree in metallurgical engineering, D.Sc (Technology).



## **Vladimir I. Shmakov**

(born in 1960), Vice President of LLC MMK Managing Company for Sales; Russian citizen; represents a shareholder of OJSC MMK, Mintha Holding Limited; since 2004, Director of MMK Finance S.A.; since 2010, member of the Management Board of the Metallurg Municipal Charitable Foundation; since 2008, member of the MMK Board of Directors; deputy of the Chelyabinsk Region's Legislative Assembly.

Graduate of the Magnitogorsk Institute of Mining and Metallurgy in 1983 with a degree in metallurgical engineering; PhD (Economics) from the Russian Presidential Academy of National Economy in 1998.



## Oleg V. Fedonin

(born in 1967), Vice President of LLC MMK Managing Company for Finance and Economics; Russian citizen; executive director of MMK Finance S.A.; member of the Board of Directors of MMK International S.A.; since 2009, member of the MMK Management Board; since 2010, member of the MMK Board of Directors, deputy of the Chelyabinsk Region's Legislative Assembly.

Graduate of the Magnitogorsk Institute of Mining and Metallurgy in 1983 with a degree in metallurgical engineering; Urals Academy of Public Administration (1996), PhD (Economics) (2002).



## Peter Charow

### independent director

(born in 1954), BP Plc's Regional Director for Russia, CIS and Turkey, OJSC British Petroleum; U.S. citizen; member of the Board of Directors since 30 March 2007, proposed by the OJSC MMK Board of Directors.

Bachelor of Arts in Political Science from Swarthmore College, Pennsylvania, USA; Master of Arts in Political Science, Columbia University, New York, USA; Executive MBA in 2006 from Tuck School of Business, Dartmouth College, New Hampshire, USA.



## Sir David Logan

### independent director

(born in 1943), 1997-2001 British Ambassador to Turkey; 2002-06 Director of Centre for Studies in Security and Diplomacy, University of Birmingham; 2002-07, Chairman of GAP Activity Projects; 2002-07 Member of the International Advisory Board, Thames Water; 2002-2011 member of the Supervisory Board of Efes Breweries International; 2002-2011, non-executive director of European Nickel plc; since 2005, Chairman of the British Institute of Archaeology at Ankara; citizen of the United Kingdom; member of the Board of Directors since 30 March 2007, proposed by the OJSC MMK Board of Directors.

Master of Arts (Hons) from Oxford University, UK in 1965.



## Sergey V. Krivoshchekov

(born in 1961), Director for Property Management Administration; Russian citizen; member of the Board of Directors since 19 May, 2000; represents a shareholder of OJSC MMK, Mintha Holding Limited.

Graduate of the Magnitogorsk Institute of Mining and Metallurgy in 1983 with a degree in metallurgical engineering; 2009, D.Sc (Economics).

### EVENTS AFTER THE ACCOUNTING DATE

In line with the best international practice and standards in corporate governance to which the Company is committed, MMK's shareholders, at their annual meeting on 20 May 2011, elected a new Board of Directors where 5 members satisfy the independence criteria, including the newly elected directors, David Herman and Bernard Sucher.



## David J. Herman

Born in 1946.

Independent member of OJSC MMK's Board of Directors, Chairman of the Board of Directors, OJSC SOLLERS.

Education:

JD Harvard Law School

MA Harvard Graduate School (Ford Foundation, Fellow in Soviet and East European Studies)

BA New York University (magna cum laude)

Junior Year at London School of Economics

Employment History:

2009 – Present - STRATEGIC INITIATIVES, Member of the Board

2009 – Present - NEW HEALTH SCIENCES (US), Member of the Board to a venture capital health diagnostic start up

2003 – Present - SEVERSTAL AUTO (NOW SOLLERS AUTO), Member of the Board/Chairman since 2006

2004-2008 – AUDIT COMMITTEE, GOLDEN TELECOM (RUSSIA), Member of the Board/Chairman  
Mr. Herman spent twenty nine years with General Motors. His career spans 9 foreign assignments and makes him GM' longest serving international service person, during which he has distinguished himself by bridging the cultural differences between the US and other countries, for which he is known in the media, industry in general and Government circles



## Bernard Sucher

Born in 1960.

Independent member of OJSC MMK's Board of Directors, Member of the Board of Directors, Aton Group.

Education:

Graduate, University of Michigan, 1983, Bachelors, Business Administration with an additional concentration in Russian and Soviet Studies. 3.83 GPA.

Graduate, Columbia University Graduate School of Business, 2001, Senior Executive Program.

Business:

2011 – Aton Group, Member of the Board of Directors

2007-2010 – Bank of America-Merrill Lynch, Russia Country Head

2002-2006 – Alfa Capital, Chairman of the Board.

1993-2002 – Troika Dialog, Managing Director, Co-Founder.

1993-1999 – I.M. Galt, Inc., President.

Entrepreneur and capital markets business leader, with strong sales-orientation and practiced cross-cultural communication skills. Deep experience in asset management and trading/sales.

### Information on the Board of Directors' Meetings Held in 2010

In 2010, OJSC MMK's Board of Directors held 11 meetings (five meetings in presentia and six absentee meetings) at which the following issues were resolved:

1. Determination of priorities for the Company's activity;
2. Approval of OJSC MMK's Risks Report for 2010;
3. Placement of OJSC MMK's securities, i.e. documentary interest-bearing non-convertible exchange-traded bearer bonds with a mandatory centralized custody of the BO-06 - BO-15 Series;
4. Participation of OJSC MMK in legal entities;
5. Approval of OJSC MMK's revised internal documents;
6. Approval of interested party transactions.

### In 2010, members of the Board of Directors participated in the following meetings of the Board of Directors and Committees:

Name	Board of Directors		Committee for Audit		Committee for Nominations and Remunerations		Committee for Strategic Planning and Corporate Governance		Committee for Investment Policy and Liaison with Government Bodies	
	Participations in meetings	Total meetings	Participations in meetings	Total meetings	Participations in meetings	Total meetings	Participations in meetings	Total meetings	Participations in meetings	Total meetings
Victor Rashnikov	11				11		9			
Rafkat Takhautdinov	11						9		5	
Andrey Gorodissky	11				11					
Sergey Krivoschekov	11						8			
Kirill Levin	11		12		11					
Sir David Logan	10	11		12	11	11		9		5
Zumrud Rustamova	11		11				9			
Oleg Fedonin*	5						6		4	
Peter Charow	11		10							
Vladimir Shmakov	11								5	
Gennady Senichev **	4						3		1	

\* Oleg V. Fedonin joined the Board of Directors and its committees (the Board's Committee for Strategic Planning and Corporate Governance, Committee for Investment Policy and Liaison with Government Bodies) on 21 May 2010.

\*\* Gennady S. Senichev was a member of the Board of Directors and its committees (the Board's Committee for Strategic Planning and Corporate Governance, Committee for Investment Policy and Liaison with Government Bodies) before 21 May 2010.

### Total Remuneration Paid to Members of the Board of Directors Based on the Results of the Reporting Year

The Board of Directors approved the Regulations on Remuneration and Compensation of Expenses of the OJSC MMK Board of Directors which set down the criteria for payment of remuneration and compensation to members of the Board of Directors.

The Regulations can be found on the MMK website at:

<http://www.mmk.ru/upload/iblock/d4b/doc012.pdf>

The size of remuneration and compensation for expenses to the members of the Board of Directors is approved annually by the General Shareholder's Meeting on the basis of the Board of Director's recommendations as a lump-sum amount.

Remuneration and compensations to the Board members, RUB '000:

	Monthly remuneration	Physical attendance of BoD meetings	Absentee participation in BoD meetings	Compensation of costs related to BoD member functions*
Board Chairman	372	155	31	actual amount
Board	310	155	31	actual amount

\*Compensation of costs related to the performance of BoD members' functions is included in the total amount of payments and is provided according to actual out-of-pocket expenses within 10 days and subject to provision of documents evidencing such costs.

#### Payments to the Board members in 2010:

Description	RUB million
Size of payments as approved by the General Shareholders' Meeting for 2010	65,000
Actual payments to the Board members in 2010	48,266

#### Information on the Committees of the OJSC MMK Board of Directors

To improve the efficiency of the Board of Directors' actions and their resolutions, OJSC MMK has set up the following committees:

- Committee for Strategic Planning and Corporate Governance;
- Committee for Audit;
- Committee for Nominations and Remuneration;
- Committee for Investment Policy and Liaison with Government Bodies

These committees submit performance reports to the Board of Directors not later than thirty business days before the date of the Annual General Shareholders' Meeting.

#### Committee for Audit

Members in 2010	Members for 2011
<b>Kirill Yu. Levin</b> (independent director) <b>Zumrud Kh. Rustamova</b> (independent director) <b>Peter Charow</b> (independent director)	<b>Peter Charow</b> (independent director) <b>Bernard Sucher</b> (independent director) <b>Zumrud Kh. Rustamova</b> (independent director)

In 2010, the Committee held 12 meetings and considered the following key issues:

- *efficiency of the internal control and audit system;*
- *analysis of financial statements (in accordance with RAS and IFRS);*
- *outcome report on the review of OJSC MMK's consolidated financial accounts carried out by CJSC Deloitte and Touche CIS (IFRS-based);*
- *competition selection (tender) of OJSC MMK's Auditor;*
- *determination of the size of remuneration to OJSC MMK's Auditor;*
- *recommendations to the Annual General Shareholders' Meeting regarding a candidate for the position of the Auditor.*

#### An auditor is selected pursuant to the requirements set forth for tender participants:

The Company's Auditor is selected according to the following criteria:

- *internationally recognised independent auditor;*
- *experience with large companies;*
- *experience in the steel industry;*
- *rating figures (proceeds, number of employees, number of attested auditors, auditor's presence in the market, other rating parameters revealing its competitive advantages);*
- *annual reduction of services cost in future years;*
- *payment upon actual fulfilment of services;*
- *economically feasible cost of auditing services, etc.*

#### Committee for Nominations and Remuneration

Members in 2010	Members for 2011
<b>Andrey M. Gorodissky</b> (independent director) <b>Victor F. Rashnikov</b> <b>Kirill Yu. Levin</b> (independent director) <b>Sir David Logan</b> (independent director)	<b>Zumrud Kh. Rustamova</b> (independent director) <b>David J. Herman</b> (independent director) <b>Sir David Logan</b> (independent director)

In 2010, the committee held 11 meetings and considered the following key issues:

- *Recommendations to the Annual General Shareholders' Meeting regarding the size of remuneration and compensation payable to the members of the Board of Directors and the Audit Committee;*
- *Consideration of proposals submitted by shareholders regarding candidates to the Board of Directors and Audit*

Committee, and inclusion of such candidates in the voting ballot for elections to the Board of Directors and Audit Committee;

- Constitution of the Collective Executive Body, the Management Board;
- Improvement of management structure, motivation and wage policy;
- Implementation of the HR policy;
- Performance of the Balanced Scorecard System.

### Committee for Strategic Planning and Corporate Governance

The Committee consists of five members:

Members in 2010	Members for 2011
<b>Victor F. Rashnikov</b> <b>Rafkat S. Takhautdinov</b> <b>Oleg V. Fedonin</b> <b>Sergey V. Krivoschekov</b> <b>Zumrud Kh. Rustamova</b> (independent director)	<b>Victor F. Rashnikov</b> <b>Peter Charow</b> (independent director) <b>Boris A. Dubrovsky</b> <b>Vitaly V. Bakhmetiev</b> <b>Nikolai V. Lyadov</b> <b>Oleg V. Fedonin</b> <b>David J. Herman</b> (independent director)

In 2010, the committee held nine meetings and considered the following key issues:

- Recommendations to the Annual General Shareholders' Meeting regarding profit distribution, including the size of dividend on shares and procedure of dividend payments;
- Implementation of the Company's sales policy;
- Efficiency of borrowings and investments;
- Implementation of MMK's social policy;
- Approval of the budget for the 2011 financial year;
- Convening and conducting the Annual General Shareholders' Meeting.

### Committee for Investment Policy and Liaison with Government Bodies

In 2010 the Committee consisted of three members:	Members for 2011
<b>Oleg V. Fedonin</b> <b>Rafkat S. Takhautdinov</b> <b>Vladimir I. Shmakov</b>	In 2011 the BoD Committee for Investment Policy and Liaison with Government Bodies was not set up.

In 2010, the committee held 5 meetings and considered the following key issues:

- Implementation of the technological development plan;
- Implementation of the environmental policy;
- Implementation of the production programme;
- Implementation of the capital construction programme;
- Implementation of the procurement policy.

### Criteria for Selection of Candidates for the Board of Directors

The Board of Directors' Committee for Nominations and Remuneration determined the criteria for selection of candidates for the Board of Directors:

[http://www.mmk.ru/corporate\\_governance/the\\_structure\\_of\\_government/shareholders\\_meeting/1302/](http://www.mmk.ru/corporate_governance/the_structure_of_government/shareholders_meeting/1302/).

Please refer to the following address regarding the procedure of nominating candidates to the Board of Directors:

[http://www.mmk.ru/corporate\\_governance/internal\\_documents/regulations\\_approved/](http://www.mmk.ru/corporate_governance/internal_documents/regulations_approved/)

### Assessment of the Board of Directors' Activities

Based on the results of the reporting year a traditional survey was carried out to assess the efficiency of OJSC MMK's Board of Directors, its Committees and each individual Board member. The questionnaire contained 14 evaluation questions, with the highest grade of 5 points.

Members of the Board of Directors noted an improvement in the level of preparation of Board meetings.

The survey indicated a need to improve the interaction between the Board and the Individual Executive Body, as well as the Board's supervision of the Individual Executive Body's operations and risk control.

Board members assigned the maximum number of points to each of their colleagues.

It is important to emphasize that all independent directors consider it an honour to serve on the MMK Board of Directors.

In general, the performance of OJSC MMK's Board of Directors was given a positive assessment.

#### **Information on the Management Board of OJSC MMK**

The Management Board of OJSC MMK is a collective executive body which manages the Company's day-to-day operations in accordance with the competence established by the Charter of OJSC MMK and the Regulations approved by the Shareholders' Meeting.

In 2010, the Management Board held 25 meetings, where the following key issues were reviewed:

- Analysis of production, business and financial performance of the Company, and the MMK Group (including production and shipments, order fulfilment, sales, procurement, and budget execution);
- Report by LLC MMK Managing Company on the performance of the Individual Executive Body;
- The 2011 draft budget and its submission for approval by the Board of Directors;
- Decisions regarding any transactions valued at more than 2.5% but less than 25% of the assets' book value, as well as interested party transactions.

#### **Members of the Management Board**

(as of 31.12. 2010)



**Rafkat S. Takhautdinov**  
(born in 1958) – Chairman of the Management Board; First Vice-President of LLC MMK Managing Company for Strategic Development and Metallurgy; member of the Management Board since 21 May 2010.



**Vladimir I. Andriyanov**  
(born in 1956) – Commercial Director; member of the Management Board since 21 December 2001.



**Valentin V. Antonyuk**  
(born in 1950) – Director for Capital Construction; member of the Management Board since 13 April 2001.



**Yuri A. Bodiaev**  
(born in 1961) – Managing Director; member of the Management Board since 30 May 2003.



**Andrei A. Eryomin**  
(born in 1972) – Acting Director for OJSC MMK's Strategic Development, member of the Management Board since 19 November 2010.



**Marina A. Zhemchueva**  
(born in 1960) – Chief Accountant;  
Chief Accountant of LLC MMK  
Managing Company; member of the  
Management Board since 19 May  
1997.



**Nikolai V. Lyadov**  
(born in 1956) – Sales Director;  
member of the Management Board  
since 30 March 2007.



**Alexander L. Mastruiev**  
(born in 1952) – Vice-President for  
Personnel and Social Programmes of  
LLC MMK Managing Company; member  
of the Management Board since 19 May  
1997.



**Vladimir E. Ruga**  
(born in 1970) – Director for External  
Communications of OJSC MMK;  
member of the Management Board  
since 19 November 2010.



**Ivan V. Senichev**  
(born in 1970) – Director for Human  
Resources of OJSC MMK; member  
of the Management Board since 19  
November 2010.



**Dmitri A. Usanov**  
(born in 1978) – Director for Capital  
Markets of OJSC MMK; member of  
the Management Board since 19  
November 2010.



**Oleg V. Fedonin**  
(born in 1967) – Vice-President of  
LLC MMK Managing Company for  
Finances and Economics; member  
of the Management Board since 27  
November 2009.



**Arkadiy V. Chernov**  
(born in 1953) – Head of the Staff of the President  
of LLC MMK Managing Company; member of the  
Management Board since 24 March 2000.

The general shareholders' meeting on 20 May 2011 decided to terminate the authority of the Company's Management Board distributing its functions between the General Director and the Board of Directors.

#### Total Remuneration Paid to Members of the Management Board Based on the Results of the Reporting Year

Company officers and directors are not paid any remuneration in their capacity as members of the Management Board. They receive salaries for their main jobs in the Company which in 2010 totaled USD 5.3 m.

#### Shares of Participation in the Company's Share Capital Owned by Members of the Board of Directors and Management Board

Name	Share of Participation Stake in the OJSC MMK Share Capital, %	
	As of 01.01.2010	As of 01.01.2011
Arkadiy V. Chernov	0,0004	0,0004

No other members of the OJSC MMK Board of Directors or Management Board owned any shares in OJSC MMK in 2010.

#### Remuneration to OJSC MMK's Management

Remuneration to OJSC MMK's top managers includes monthly salaries and annual bonuses.

The monthly salary consists of:

- a constant part set by the contract;
- a variable part (bonus) which is calculated according to the regulations in effect.

The annual bonus depends on the achievement of key performance indicators which are determined based on the Company's short- and long-term objectives.

No remuneration is paid to MMK's managers for their work in the governing bodies of OJSC MMK or its subsidiaries, such as MMK's Management Board of subsidiaries' boards of directors.

#### Information on the Company's Individual Executive Body

The authority of the individual executive body is exercised by a managing company, LLC MMK Managing Company represented by the President, Viktor F. Rashnikov.

LLC MMK Managing Company is located at: 93, Kirova str., Magnitogorsk, Russia, 455000.

The key objectives of LLC MMK Managing Company include ensuring an efficient management system, expanding the Company's presence in the global steel market and modernising its productions assets.

The remuneration (salaries) paid to the employees of LLC MMK Managing Company in 2010 totalled USD 5.1 million.

## EVENTS AFTER THE ACCOUNTING DATE

Starting from 20 May 2011, the authority of the LLC MMK Managing Company as the Company's individual executive body was terminated, superseded by the position of the Company's General Director to which Boris Dubrovsky was appointed.



### **Boris A. Dubrovsky**

(Born 1958) – General Director of the Magnitogorsk Iron and Steel Works OJSC, Russian citizen.

Education: Graduate of the Magnitogorsk Mining and Metallurgy Academy, 1990; National Economy Academy of the Russian Government, 2001.

Employment: 2009 – May 2011: First Deputy General Director, Uralvagonzavod Research and Production Corporation OJSC; 2003 – 2008: Director for Domestic Sales, Director for Sales, Managing Director, Magnitogorsk Iron and Steel Works OJSC; 2002 – 2003: General Director, Magnitogorsk Metalware Plant; 2002: Director for Technology, Chief Engineer, OJSC MMK.

### **Information on the Audit Committee**

The Audit Committee's task is to monitor the Company's business and ensure observance of laws and shareholder rights.

The Audit Committee is elected at the Annual General Shareholders' Meeting for a term of one year. There are three members of the Audit Committee:

- Nadezhda M. Kalimullina (b.1957), member of the OJSC MMK Audit Committee since 1995; Chairperson of the OJSC MMK Audit Committee since 2009;
- Natalya B. Volynets (b. 1964), member of the OJSC MMK Audit Committee since 2009;
- Svetlana N. Voronina (b. 1958), member of the OJSC MMK Audit Committee since 2009.

## EVENTS AFTER THE ACCOUNTING DATE

Due to the Company's re-organization and for the purpose of improving the efficiency of its operations starting from 20 May 2011 the number of members of the Company's Audit Committee was increased to 12.

### **Information about the Registrar**

Closed Joint-Stock Company Registrar Company STATUS (license # 10-000-1-00304, issued on 12 March 2004 by the Federal Agency for Financial Markets for an indefinite period) is responsible for maintaining and keeping OJSC MMK's share register. The Registrar's registered office is located at the address:

32, Building 1, Novorogozhskaya str., Moscow, Russia, 109544  
tel.: +7 (495) 974 8350  
fax: +7 (495) 678 7110  
e-mail: office@rostatus.ru

### **Risk Management**

Key risk management principles existing at MMK:

- the risk management system functions on all levels of management and in all functional and project spheres;
- identification, evaluation and documentation of all risks which may have an adverse effect on MMK's ability to achieve its strategic objectives.

The Risk Management Department monitors risks on a day-to-day basis.

The Management Board and the Board of Directors review and approve the Company's risk management reports.

The Board's Committee for Strategic Planning and Corporate Governance reviews and prepares recommendations on the risk report for the Board of Directors approval.

The Board of Directors approves the risk report and the risk management policy.



### **Internal Control System**

OJSC MMK has created and operates an internal control system.

The Department of Internal Control and Economic Security and the Security Department, both part of the Group's overall Control Administration, continuously supervise and assess the effectiveness of the Company's internal control system.

OJSC MMK's Board of Directors is responsible for the internal control system (Board's Committee for Audit).

### **Financial Reporting Internal Controls System**

MMK has created and operates a financial reporting internal controls system.

The system's efficiency is assessed every year with respect to the materiality level evaluated on an annual basis in order to verify the reliability of annual consolidated financial statements. To determine the materiality level, a top-down approach is applied in conformity with the methodology used for internal control systems' audits as set out in Audit Standard # 5 (PCAOB AS5).

The financial reporting internal control system is operated to ensure a reasonable degree of security regarding the accuracy of financial reports and their compliance with the applicable standards (IFRS).

-to-day supervision of the financial statements is performed independently by the Vice President for Finances and Economics and the Control Administration.

The Board's Committee for Audit prepares reports on all material facts in respect of the violation of financial statements preparation procedures, and also runs an independent control of this system's functioning.

Based on such reports, the Board of Directors evaluates the efficiency of the system.

### **Information on the Auditor**

Since 2006, the Company's Auditor has been CJSC Deloitte & Touche CIS, a division of Deloitte & Touche, one of the Big Four audit companies. From 1997 to 2005, the Company's Auditor was KPMG.

The Auditor's fees in 2010 totalled RUB 30 million and included:

- fees for the audit of the 2010 interim and annual statements prepared under Russian Accounting Standards for an amount of RUB 27.5 million; and
- fees for the audit of the 2010 consolidated statements prepared under the IFRS for an amount of RUB 2.5 million.

Every year the appointed Auditor confirms its independence from the Company. The Board's Committee for Audit reviews the provision of any non-audit services to be provided by the Auditor, in order to maintain the independent status of the Company's Auditor.

In 2010, CJSC Deloitte & Touche did not provide any services to OJSC MMK which werenot related to audit. License # E002417, issued on 06.11.2002 (#255) of the Russian Federation Ministry of Finances. Location: 4/7, bldg 2, Mokhovaya Business Centre, Vozdvizhenka str., Moscow, 125009.

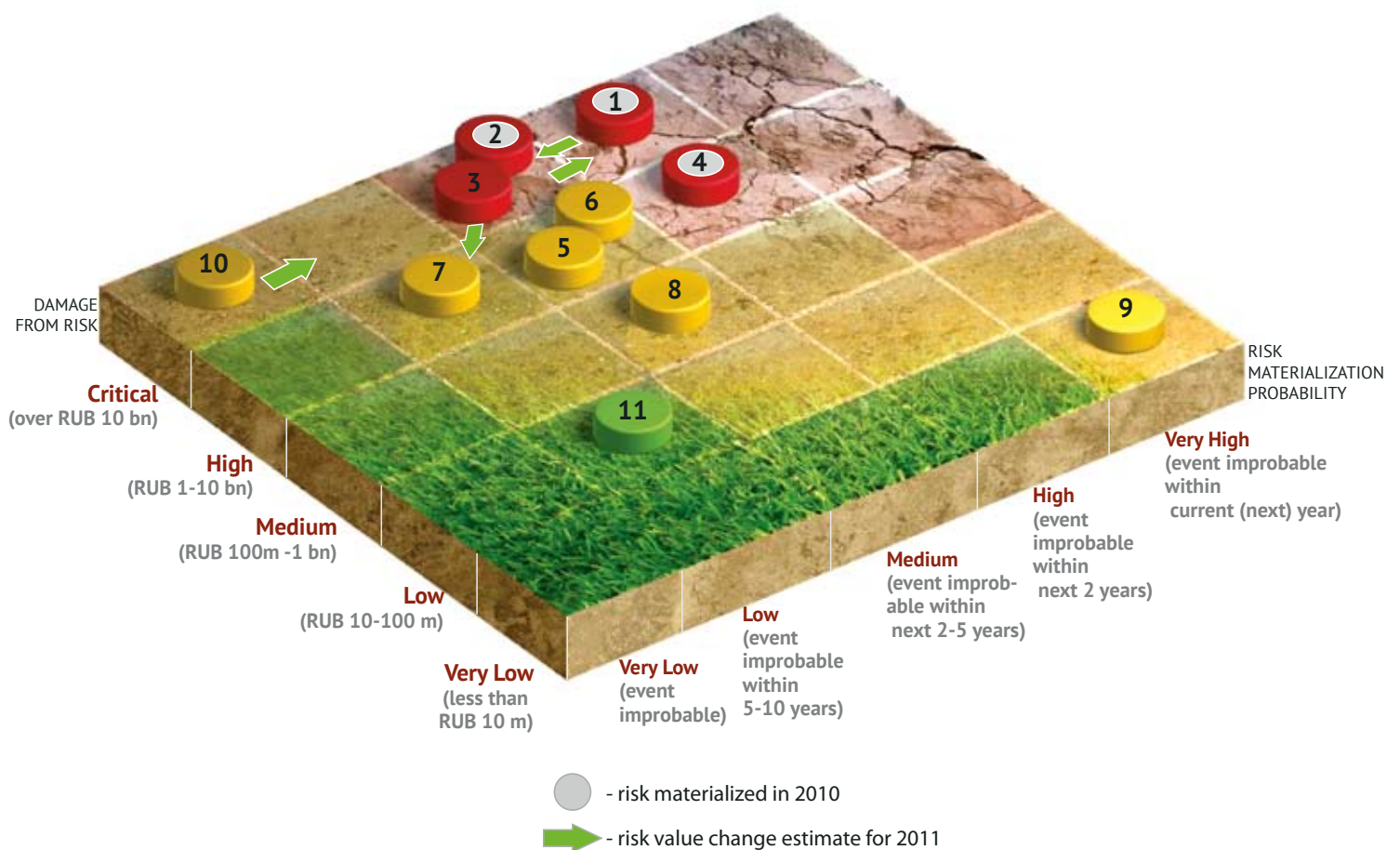
On May 20 2011 MMK's general shareholders' meeting, in keeping with the rotation principle, approved CJSC KPMG as the Company's Auditor for 2011.

EVENTS AFTER THE ACCOUNTING DATE

# Risk Management

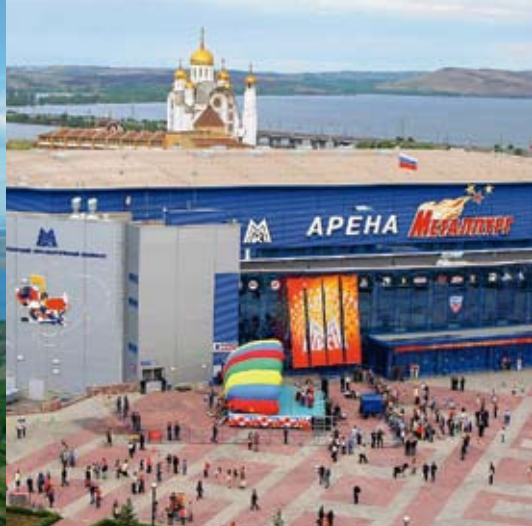
In 2010, the following risks materialized:

1. Higher prices for iron ore raw materials, coal, metallic scrap, non-ferrous metals: the actual price growth for key raw materials, which had been forecasted at 41%, in fact reached 59%.
2. Lower demand and prices for steel products as compared with what had been budgeted: partially reflected in Q2 and Q3 of 2010 (budget compliance with respect to the steel sales proceeds was 95%).
3. The risk of not meeting the Company's financial and business targets as set out in its capex project business plans (project in Turkey).



1. Low actual demand and prices for steel products
2. Prices for iron ore raw materials, coal, metallic scrap, non-ferrous metals exceeding the planned level;
3. OJSC MMK's and contractors' failure to perform obligations;
4. Non-compliance with the financial and economic figures specified in investment project business plans;
5. Claims for loan prepayments against OJSC MMK;
6. Corporate fraud;
7. Currency risk;
8. Claims for recovery under OJSC MMK's guarantees issued to third parties and affiliated companies;
9. Accidents;
10. Industrial accidents;
11. Increased cost of borrowed funds.

Relevant mitigation measures with respect to all the risks covered by OJSC MMK's Risk Map were developed and approved. Each risk is matched with an indicator from the Balanced Scorecard.



# Social Responsibility



MMK Group includes socially oriented companies which assume responsibility for the well-being of citizens of Magnitogorsk and other regions where the Company has a presence. The list of social programmes includes health protection and occupational safety for employees, environmental protection and resource conservation, personnel training, development of the local community and many others.

By financing social programmes, MMK Group creates a sustainable basis for the long-term development of Magnitogorsk and the regions where it operates, by implementing a number of social and infrastructure projects and programmes.

In 2010, MMK Group spent USD 77 million on supporting various social programmes, which is USD 8 million more than in 2009 (USD 69 million). The parent company (OJSC MMK) allocated RUB 1.5 billion (USD 50 million) for social policy in 2010 .

## Health Care and Social Support to Personnel

Medical care programmes are the mainstay of the Company's social policy. The Company spent RUB 353 million on implementing preventive health care and treatment programmes.

MMK is implementing a programme of in-depth medical examinations which allow it to carry out additional check-ups of workers involved in hazardous production.

In 2010, 16,337 MMK's employees with their families spent vacations at MMK's resorts and holiday centres, with 50% of them receiving spa treatment. The Company contributed RUB 238 million towards covering the cost of such vacations.

\* - this amount includes the funds allocated for financing the Metallurg Ice Hockey Club

In the summer of 2010 recreational and educational camps "Uralskie Zori" and "Gornoye Uschelye" received 3,620 children of MMK's employees. MMK Group spent RUB 40 million on compensations for the children's stay in these camps.

OJSC MMK continues to implement the maternity support programme launched in 2004. In 2010 the Company spent RUB 34 m on this programme. Besides, since 2008 OJSC MMK has been operating a programme of support to large families. The programme reached 307 families of MMK's employees with three or more children under 18 years old, with a cost in 2010 of RUB 9 million.

MMK's housing programmes are implemented by the Klyuch housing investment fund. In 2010, it started the construction of a 17-storey building comprising 112 apartments.

As part of the national project "Affordable and Comfortable Housing", in 2006 OJSC MMK launched a programme to assist young steel-makers' families in purchasing apartments. Every year 30 young families receive subsidies in the amount of RUB 80,000 each and a chance to purchase a one-room apartment at a subsidised price.

Much attention is devoted to sports. Every year, winter and summer sports competitions are held among various MMK's divisions. 45 Sports events were held in 2010 at the sites and facilities of the Metallurg-Magnitogorsk Sports Club which gathered more than 8,800 employees and members of their families. Overall, the Company spent RUB 86 million for these purposes.

### Healthy Way of Life and Sports

To encourage sports and recreational activities MMK has built a number of sports facilities.

Every year, winter and summer sports competitions are held among various MMK's divisions which in 2010 gathered more than 3,400 participants. In 2010, Metallurg-Magnitogorsk sports grounds and sports clubs facilities hosted 45 sporting events, drawing more than 8,800 employees and their families.

MMK also offers corporate outings to the Company-owned ski resorts and the Vodopad Chudes Water Park. In 2010, ski resorts in Abzakovo and at Lake Bannoye near Magnitogorsk were visited by 12,671 employees and their families.

The Company spent RUB 86 million to maintain the Metallurg-Magnitogorsk Sports Club and to arrange mass entertainment sporting events.

MMK conducts its charitable activities and implements its social assistance programmes through the Metallurg Charity Foundation.

In 2010, the Metallurg Foundation received contributions for a total of RUB 417 million, 93% of which were contributed by MMK Group.

The Foundation's main activity is focused on targeted social support and aid to the disabled, Company veterans, retirees, and the least protected categories of population through an extensive network of social facilities. In 2010, OJSC MMK allocated RUB 230 million for social support of retirees and disabled people within the framework of the Zabota("Care") Programme.



## Human Resources Policy

The main factor of MMK's strong performance is maintaining its long-term competitive ability achieved through equipment modernization and balanced HR policy aimed at:

- securing highly qualified personnel;
- giving priority to developing the Company's personnel potential over the modernization of process facilities;
- ensuring adequate standards of living for its employees.

The corporate PERSONAL Training Centre has developed programmes for fostering a future HR reserve covering stages from foreman to top manager. Every year seminars and competitions are held for young specialists.

In 2010, more than 36,000 employees from MMK Group underwent training under different occupational and advanced training programmes.

Key Indicators of MMK and MMK Group's HR Policy

Indicator	2006	2007	2008	2009	2010
Staff on Pay-Roll as of Year End, persons					
MMK Group	59 037	60 726	58 798	62 195	59 331
MMK	27 079	25 015	24 123	22 334	21 475
Average Monthly Wage, RUB					
MMK Group	16 792	21 118	23 149	23 925	29 979
MMK	19 852	24 785	27 793	27 906	34 523
MMK's Labour Productivity					
Conv. tonne/ person	44.3	47.8	47.8	42.4	48.9
Thousand RUB/ person	517.3	616.1	811.2	545.9	798.0

The turnover rate in 2009-2010 was 2.8-2.6%, down from 6.1-6.8% in 2006-2008.



## Labour Safety

The corporate labour and industrial safety management system was certified for compliance with the international OHSAS-18001- 2007 standards (2008). A supervision audit conducted in 2010 did not reveal any non-compliance. The labour and industrial safety management system is recommended for certification prolongation as per OHSAS 18001:2007. In 2010, under the Labour Safety Agreement 68 actions aimed at improving labour conditions and preventing occupational diseases were implemented. 2,246 employees enjoyed better working conditions.

Accidents in production, operation, construction, maintenance, overhauls, and modernization of facilities

	2009	2010
Total accidents	18	19
Total persons affected	18	19
Fatal accidents	4	3
Accidents resulting in severe injuries	2	4
Frequency rate	0.790	0.886
Severity rate	133.85	63.29

The Company's employees are provided, in accordance with sectoral standards, with special clothes, footwear, and personal protection means. Shopfloor medical stations perform pre-shift medical check-ups of personnel operating automotive and railway transport, and heightened danger machines and mechanisms.

### Labour Safety Costs in 2010

in million roubles

Description	2009	2010
Provision of personal protective wear	127.3	146.1
Purchase of polyvitamins and dietary products for employees working in hazardous conditions	22.4	16.4
Laboratory tests for workplace certification	17.1	17.9
Purchasing of bottled mineral water for employees working in hot environments	9.1	11.9
Special dietary products for employees working in hazardous conditions	2.2	2.2
Other labour safety costs	150.9	211.2
Total	329.0	405.7



**Currently, the average employee of MMK is a man 39 years old (69%), with a specialized professional training (86%) and sufficient experience and skills (average work record of 11 years). Managers, specialists and other white collar workers account for 21.8% of the total workforce, and blue collar workers, for 78.2%.**



■ GREEN LIGHT

# Environmental Protection



## Environmental policy

MMK carries out its production activities in accordance with environment protection laws of the Russian Federation and in compliance with the ISO 14001:2004 standard.

All industrial processes are monitored in terms of their effect on health and environment:

- ore extraction and beneficiation
- sinter production
- coke production
- pig iron production
- steel production
- hot rolling
- production of long products
- cold rolling
- application of metallic and polymer coatings
- railway and automotive transportation
- production, generation and transfer of fuels and power
- recovery, storage and recycling of industrial wastes.

In order to meet the requirements of European REACH (Registration, Evaluation and Authorization of Chemicals) standards and to maintain access to European markets, MMK opened a subsidiary in Brussels, MMK International S.A., which is tasked with obtaining permits for importing products into the EU and receiving the necessary certifications of their chemical composition in accordance with relevant standards.

Reducing MMK's impact on the environment is a strategic goal and a key element to the Company's sustainable, long-term growth. The Company carries out its operations with full awareness of its responsibility for its impact on the environment.

MMK's Environmental Plan For the period through 2015, approved on 1 March 2010, sets out the following long-term goals for environment protection:

- reduction of emissions into the air and effluent discharge;
  - dust: by more than 8,000 t/year;
  - ammonia: by more than 1,200 t/year;
  - SO<sub>2</sub>: 4,000 t/year;
  - NO: 1,800 t/year
- disposal of industrial waste and land reclamation (over 160 ha of land to be reclaimed, and a 120,000 t/year facility to be built for dewatering of BOF sludge);
- rational use of natural and energy resources.

In 2010, MMK achieved the following results as part of its Environmental Plan:

- gross emissions into the atmosphere were reduced by 8,200 tonnes (3.6%), down to 220,900 tonnes;
- the volume of waste recycled in the sintering process increased by 6.4% to 2,182 million t;
- the share of recycled water equalled 97.3% of total water consumption for industrial needs.

- the share of steel products shipped on reusable fastening frames reached 55%.

In 2010 MMK took steps to modernize certain production processes which resulted in the reduced consumption of power, fuel and other utilities:

Description	Reduction in consumption
Electric power	6,172,000 kWh
Fuel	4,761,000 t of equiv. fuel
Heat, total	11,621 GCal
Compressed air and air separation products	977,000 m <sup>3</sup>
Potable water	42,500 m <sup>3</sup>
Industrial water	367,000 m <sup>3</sup>



## MMK's Environmental Impact in 2010

MMK's operations in the area of Magnitogorsk and the Agapovsky District do not produce any significant effect on the biodiversity of the adjoining territories, nor do they perturb the habitat of any animals, including endangered species listed in the Red Book.

MMK does not monitor the emission of ozone-depleting substances produced by its operations.

### Emissions into the Atmosphere

Pollutant	2010 Emissions, tonnes
Particulate matter (dust)	25,511.89
Nitrogen dioxide (NO <sub>2</sub> )	16,037.61
Ammonia	440.8
Hydrogen sulphide	59.61
Sulphur dioxide (SO <sub>2</sub> )	17,251.76
Carbon oxide	153,544.47
Phenol	95.99
Total discharges	220,874.795

### Effluents:

In 2010, MMK discharged effluents from 7 outlets into 3 surface water bodies:

- within the city limits from the cooling water recirculation system into the Magnitogorsk Reservoir, (230,434.6 m<sup>3</sup>);
- within the city limits from the Co-Generation Plant's ash dump into the Magnitogorsk Reservoir (2,410.2 m<sup>3</sup>);
- into a fish habitat (Sukhaya River) from the # 2 Sludge Deposit of the Ore Dressing Plant (8,000 m<sup>3</sup>);
- contaminated water from the limestone mine into the Ural River (a fish habitat) (22,354.7 m<sup>3</sup>);
- contaminated water from the dolomite mine into the Ural River (3,803.7 m<sup>3</sup>);
- effluents from the Crushing and Calcination Plant into the Ural River (588.0 m<sup>3</sup>);
- within the city limits from the Co-Generation Power Plant's cooling system into the Magnitogorsk Reservoir (71,954.5 m<sup>3</sup>);

The main pollutants discharged into water bodies from the industrial operations are iron, manganese, petroleum products, sulphates, phenols, fluorides and zinc.

### Effluents' Discharge

Pollutant	Discharge in 2010, tonnes
Fe	34.124
Mn	18.595
Petroleum products	59.9
Sulphates	46,198.47
Dry residual	396.07
Fluorides	46.83
Zinc	92,129.48
Total discharge	138,883.48

MMK does not perform cross-border transportation or collection of waste (under the Basel Convention).



### Industrial Waste Disposal

Waste hazard class	Deposited at landfills, tonnes
Class 1	0
Class 2	0
Class 3	31,630.768
Class 4	98,975.643
Class 5 (without gangue)	1,085,570.1
Total (without gangue)	1,216,176.511
Class 5 (gangue)	30,091,792

Captive Generation of Electric Power, by Source, m kWh

Co-Generation Power Plant	2,645
Central Power Plant	1,714
Steam and Air Blast Power Plant	762
Steam Power Plant	86
Hydro Power Plant	0
TOTAL	5,207

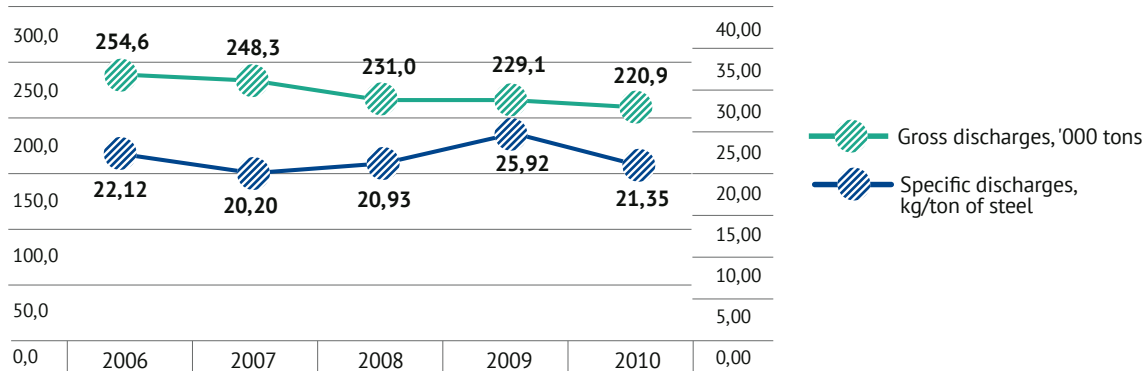
Supply of Electric Power to MMK (excl. MMK subsidiaries) from Third Parties, m kWh

LLC MEK	1,740
OJSC ChelyabEnergO	0.8
OJSC BashkirEnergO	0.2
OJSC Russian Railways	0
TOTAL	1,741

## Emissions into the Atmosphere and Production Waste Recycling in 2006-2010

The priority of MMK's environmental program is to reduce harmful emissions into the air. MMK's strategy for reducing air pollution centres on installing the best available technologies when building and modernizing production facilities, while simultaneously decommissioning obsolete and worn-out facilities. The implementation of MMK's strategy for mitigation its environmental impact has yielded a sustainable reduction of emissions into the atmosphere.

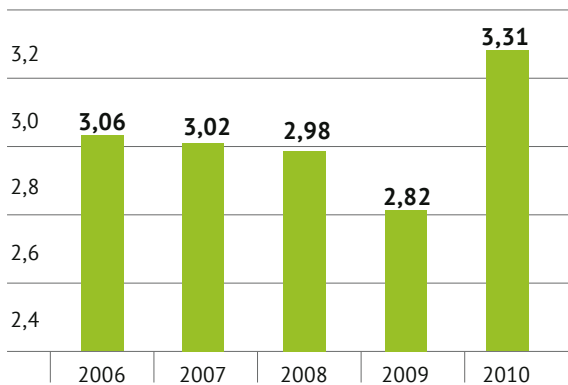
### Emissions into the Air



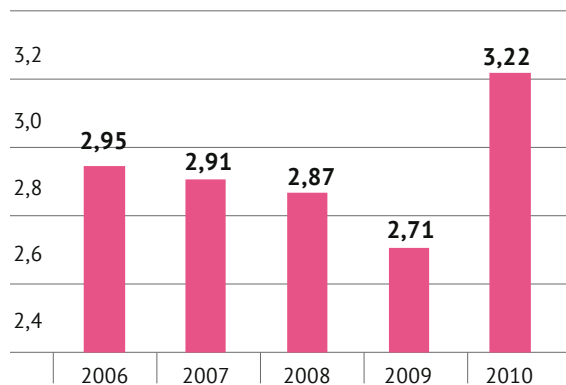
MMK's strategy for reducing water pollution seeks to maximise the reuse of water for industrial process water supply systems. In 2010, recycled water accounted for 97.3% of MMK's total water supply for industrial process needs.

### MMK Water Supply and Consumption

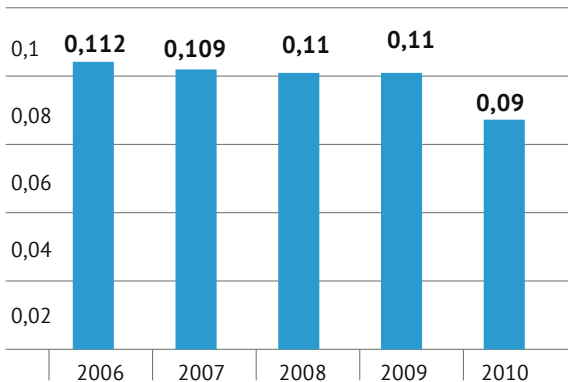
#### Total water supply, bn m<sup>3</sup>/year



#### Reused water supply, bn m<sup>3</sup>/year



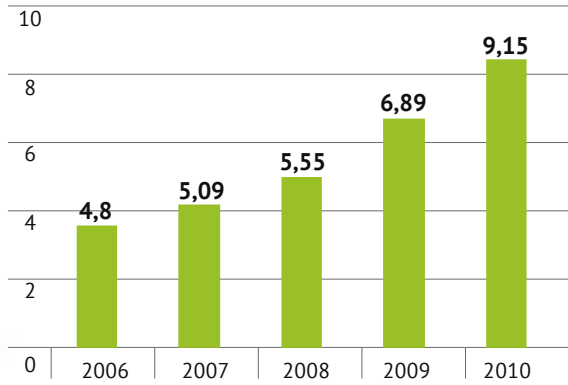
#### Water intake from Magnitogorsk reservoir, bn m<sup>3</sup>/year



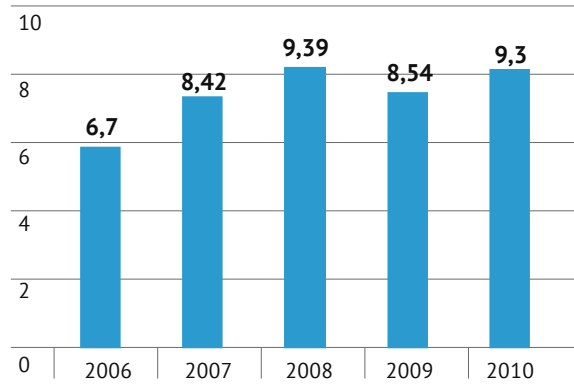
One of MMK's top priorities is to use industrial wastes in production and in the reclamation of exhausted ore mining pits. MMK processed slag before 2009 using Russian-made crushing and sorting facilities and a Roxon plant with an aggregate capacity of up to 5 mtpy of slag. In 2009, an Amcom separation plant with a capacity of up to 1 mtpy of slag was launched. A total 5.9 m tonnes of slag was processed in 2009. The plant has proved to be highly efficient, and was revamped in February 2010, with increased capacity of up to 1.5 mtpy of slag. The Amcom-2 plant was put into operation in April 2010, with a capacity of 2.5 mtpy of slag, and a similar plant with a capacity of 2.5 mtpy was launched in October 2010. Thus, the aggregate capacity for slag processing is now 11.5 mtpy of slag. MMK's slag dumps total over 60 million tonnes. At current capacity levels, these slag dumps will be fully processed within 6-9 years.

## MMK Industrial Waste

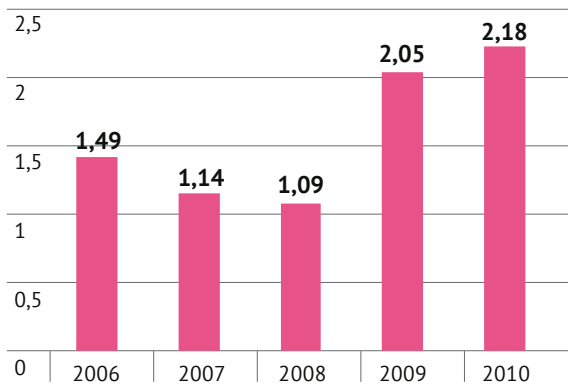
**Total steelmaking slag recycled (current and dumps), m tons**



**Total waste and slag used for reclaiming Mt.Magnitnaya's exhausted pits**



**Total industrial waste used in sinter burden, m tons**



### Environmental Protection Measures in 2010 and Related Expenses

Within the framework of the 2010 Environment Program the Company implemented 35 technical measures of different levels of complexity aimed at the reduction and prevention of negative impacts on the environment.

### Key environmental protection measures implemented in 2010:

Measure	Timing	Expenses, RUB million		Impact
		2010	Total to date	
Construction of a water reuse system, a treatment unit for Caster #6 and a secondary steel treatment unit for Caster #6	2008-2010.	44.57	984.08	Prevention of fresh water consumption for industrial purposes by 41,500 m <sup>3</sup> /h
Construction of a gas treatment system, a fume exhaust tract downstream of gas cutters for Caster #6, secondary steel treatment unit aspiration systems for Caster #6	2009-2010	73.31	299.37	Prevention of dust emissions by 885 t/year
Reclamation of slag storage facility #1 in the Ore-dressing Plant. Technical stage.	2000-2010	87.20	252.18	29 ha of damaged land have been re-cultivated
Renovation water reuse systems in Rolling Shop #4	2010-2011	699.33	699.33	Reduction of oil product disposal into the water reuse system by 21 t/year
Construction of an electric filter aspiration system for blast-furnace stock houses #10	2008-2011	100.22	118.67	Reduction of emissions by 600 t/year
Construction of slag processing unit aspiration systems (Amkom #1, 2)	2010-2011	42.02	42.02	Prevention of dust emissions in the amount of 660 t/year

In 2010 MMK spent a total of RUB 2,239.6 million on environmental protection. Expenses for construction of new, or renovation of existing, environmental facilities totalled RUB 1,373.3 million, including:

- RUB 240.5 million on reduction of emissions into atmosphere;
- RUB 1,012.8 million on reduction effluent;
- RUB 120.0 million on industrial waste disposal.

### Expenditures on environmental protection in 2010:

Cost description	Amount, RUB m
Capital construction	1,373.3
Capital repairs	12.9
Maintenance (routine repairs and operational costs)	852.0
R&D on environmental protection	1.4
Total	2,239.6

### Environmental Performance

In 2010, MMK was named the winner of the IV All-Russia Competition "Leader in Environmental Protection Activity in Russia" competition that was conducted as part of the All-Russia Ecological Conference "New Priorities for National Environmental Policy in the Real Economy".

# ■ Stakeholder Engagement

Corporate social responsibility (CSR) is an integral part of MMK's operations. The Company takes a systematic approach to CSR activities, with the aim of creating efficient and safe workplaces, ensuring occupational training for employees, supporting cultural and sports activities, protecting the environment and assisting the development of local communities. The Company interacts with a wide array of stakeholders. The most significant of them include:

- suppliers and contractors;
- public organizations and movements, as well as political parties;
- the Company's employees and trade unions;
- the investor community\*;
- educational establishments;
- government bodies and municipal entities;
- the population of Magnitogorsk and the regions where MMK has a presence.

The Company believes it is extremely important to maintain and expand a constructive dialogue with its stakeholders, and constantly seeks ways to perfect stakeholder communication, feedback and interaction.

## Relations with Suppliers

In conducting its business, MMK strives to comply with the applicable laws, its contractual obligations and good business practices.

MMK's official web-site (<http://www.mmk.ru>) is an electronic resource that provides comprehensive information about the Company's needs for raw materials and services, tender announcements, as well as requirements for suppliers, materials supplied and services.

Long-term and mutually beneficial cooperation is one of the key guiding principles for MMK in dealing with its suppliers and contractors. MMK's long-term contracts for the supply of iron ore raw materials, coal, and natural gas are all evidence of this. In 2010, raw materials supplied under long-term contracts accounted for 88.8% of the primary raw materials used by the Company.

A constructive dialogue with key raw materials and goods suppliers, combined with development and timely signing of mutually beneficial agreements were instrumental in mitigating the negative impact of the market decline on MMK's business.

\* Information on MMK's relations with the investor community is provided in the "Information for Shareholders and Investors" section.

## Relations with Customers

MMK strives to establish long-term, mutually beneficial business relations with its customers. Relations with customers are based on transparency and good faith principles.

The "For Customers" Section of the MMK website offers information on the following issues:

- Types of products;
- Quality certificates;
- Prices and delivery conditions;
- Contact information for customers.

MMK has an electronic trading platform (<http://www.mmk.ru/rus/index.wbp>) for Russian customers, which enables them to place orders at any convenient time irrespective of their location.

The Company's feedback system enables customers to send information and report on procedural violations or incorrect actions by MMK's officers.

Contact details:

- Tel.: 24-30-30 (calls are free of charge and are accepted on a 24-hour basis);
- e-mail: [24-30-30@mmk.ru](mailto:24-30-30@mmk.ru);
- Postal address: P.O. box 000, 93 Ul. Kirova, Magnitogorsk, 455000, Russia.

To increase customer satisfaction with products and quality of service, MMK has introduced a quality management system that complies with the requirements of the ISO 9001:2000 international standards.

In order to improve the efficiency of sales in regional markets and to further expand its regional network of owned steel sales centres MMK operates the trading house Torgovy Dom MMK. The trading house has a strong stockyard infrastructure and wide range of products that are sufficiently stocked. This means that MMK can maintain uninterrupted, prompt supplies of its products to customers, and fulfil all of their demands.

Establishing a secure and transparent trading structure with minimal operating costs will enable MMK to have a more effective impact on distribution channels and to develop a more flexible approach to pricing products in the spot market.

The Company intends to continue its policy of close interaction with customers through such means as improving information communication systems and promptly responding to market changes.

### Relations with Company Employees and the Trade Union

Successful development in the modern world requires the Company's staff to be team-oriented and highly skilled. To achieve this, MMK's policy focuses on professional development and on creating comfortable working conditions supportive of career growth.

MMK interacts with its workforce through the employee trade union, whose primary objective is to protect employees' rights, provide them with social protection and represent their interests. Over 98% of MMK's employees are unionized.

The union focuses on the following key tasks:

Monitoring the implementation of MMK's collective agreement, which sets forth the principles regulating social and labour relations, such as wages and salaries, production operations, work discipline, labour competitions, occupational safety and health, work and vacation schedules, career training and education, and medical services.

Publicly controlling labour safety, including inspection of conditions in employees' rooms, medical stations and canteens. Union representatives take part in inspection of protective clothes and personal protective equipment.

Supporting MMK's social, recreation and health improvement programs for employees and their families, cultural and popular events, and youth programs.

The Company understands that it must develop its personnel, and, consequently, the social sphere. With this objective in mind, the Company works with the union to successfully implement social programs for its employees; these programs are designed to create favourable conditions for solving social and occupational problems facing employees and their families.

### Relations with Educational Establishments

Personnel training and development is carried out in leading Russian educational centres (Lomonosov Moscow State University, the Russian Presidential Academy of National Economy and Public Administration, the State University of Management, Moscow International Higher Business School "MIRBIS", the Financial University, etc.) including overseas internship programs, and at international schools for economics and management such as the Stockholm School of Economics in Sweden, and Bocconi University (Italy), including MBA programs.

MMK has developed and implemented a competence attestation and assessment system to determine the technical competencies required by its managerial staff, and to help reveal potential areas for development. The system is designed to test the following areas: Occupational Knowledge, Occupational Skills, and Management Skills.

During 2010, more than 36,000 employees of MMK Group participated in various educational programs aimed at vocational and advanced training. Investments into training, retraining and refresher training in 2010 amounted to USD 4.7 million.

One of the primary focuses of MMK's training programs is on preparing specialists to operate new facilities (the 5,000 mm Plate Mill, Caster #6, HDGL, CCL #2 in the Steel Coating Division, the 2,000 mm Cold Rolling Mill). In order to adopt best engineering practices the Company has launched special training and internship



programs at educational institutions and enterprises in Russia and abroad (SMS Demag, ThyssenKrupp, AMCOM, ALTA, CJSC NKMZ, etc.). These programs give employees new qualifications and career skills.

Since 2001, MMK has run CEO V.F. Rashnikov's "Talented Children of Magnitka" charity program. To date 125 children from Magnitogorsk schools and lyceums have participated, and the 2011 budget for grant payment is nearly RUB 1 million. Program participants go on to study at leading Russian universities.

In order to improve the pool of qualified workers for MMK and MMK Group subsidiaries, the Company closely cooperates with the city's vocational educational institutions. The Company continues to cooperate with the State Educational Institution SPO Polytechnic College in the area of training young specialists. Under the terms of the agreement graduates will receive training for second and adjacent professions. Every year MMK defines the number of students required for further employment by MMK's structural divisions. Thus, in 2010, the Polytechnic College admitted 509

first-year students.

The Company continues to develop and introduce multimedia training programs. In 2010 the Magnitogorsk Industrial College arranged professional training for managers and the manager talent pool of the Company's Long Products Shop, the BOF shop (based on "Distributor Operator", "Refining Unit Steelmaker", "LF Steelmaker", "Specialist for Converter Hydraulic Equipment" multimedia materials), the EAF Shop ("EAF Steelmaker", "LF Steelmaker"), Rolling Shop #4 (Receptacle Operator in Slitting Line #2), Steel Coating Shop ("HDGL Entry/Exit Section Operator", "HDGL Heat Treater", "HDGL Zinc Pot Operator"), Rolling Shop #10 ("Process Operator for RM/FM"), Rolling Shop #9 ("Plate Mill Equipment Design", "Main Rolling Profiles for Plate Mill 5000", "Plate Finishing Line Operating Principles for Plate Mill 5000").

#### Relations with Public Organizations and Movements

MMK is committed to long-term cooperation with public organizations and movements with a view to creating a favourable and predictable social and economic environment for MMK's employees, as well as for local communities in the regions where MMK operates.

MMK actively interacts with various public organizations and movements, including:

Stakeholders (interested parties)	Areas of Cooperation	Activities
Environmental organizations (Greenpeace Russia; Autonomous Non-Profit Organization "Independent Environmental Rating Agency", etc.)	Environmental protection, rational use of natural resources	Non-financial statements, participation in relevant meetings, conferences
War veterans organizations (MMK War Veterans Council, Voinskoye Bratstvo, etc.), disabled persons' organizations (All-Russian Disabled Persons Society, etc), charitable organizations (the Metallurg Charitable Foundation, etc)	Support to socially vulnerable groups, charity activities	Joint campaigns and activities, social work and consulting, work in deputies' districts, meetings, discussion clubs, conferences, feedback sessions, information support, joint activities, cultural and sport events, financial support
Women's organizations (Social movement "Y aZhenschina", NGO "Akademiya Preobrazheniya", etc.)	Maternity and child care support, support to families with many children, benefit programs for children	
Youth organizations (Magnitogorsk Youth Public Organization "Young Steelmakers' Union", National Public Organization "MolodayaGvardiya", etc.)	Assistance to the social and economic development of the regions; support to education, culture and sports	

Stakeholders (interested parties)	Areas of Cooperation	Activities
Religious organizations (Russian Orthodox Church, Public Council of the Regional Muslim Organization for the City of Magnitogorsk, etc.)	Spiritual and cultural development	Meetings, conferences, correspondence, charity activities
Other organizations (e.g. Russian Union of Industrialists and Entrepreneurs, Public Chamber of Chelyabinsk Region, Extreme Sports Federation, Association of Russian Lawyers, Olympic Athletes Support Foundation, etc.)	Public evaluation of draft laws, joint actions to develop social and economic infrastructure	Forums, exhibitions, social committees support, consulting centres, media publications, websites

To protect its interests MMK takes part in the following associations:

- Russian Industrialists and Entrepreneurs' Union (member since 1999)
- Not-for-profit Partnership "Konsortium Russkaya Stal" (member since 2005).

#### Relations with Local Communities in Magnitogorsk and the Regions of MMK's Operations

MMK has operations in many regions of Russia, the CIS and foreign countries. MMK is one of the major taxpayers in the Chelyabinsk Region and is the largest taxpayer and employer in Magnitogorsk. The future of hundreds of thousands of Magnitogorsk citizens and those of the neighbouring areas depends on the Company's ability to remain competitive in the long term. This means that MMK's key priorities are to build its long-term relations with the local community and to resolve issues in such a way that both sides benefit. MMK supports educational and cultural institutions in the city and its districts, helps to develop public sporting events, and makes significant contributions to developing the social, utilities and transport infrastructures. MMK regularly informs the local community about the Company's operations that may affect their interests through the corporate mass media, such as:

- the Magnitogorsky Metall newspaper ([www.magmetall.ru](http://www.magmetall.ru)),
- broadcasts on local TV programs and radio stations,
- the MMK corporate website ([www.mmk.ru](http://www.mmk.ru)).

#### Relations with Federal and Local Authorities and Political Parties

Working with federal and local government authorities is an essential activity that contributes to the sustainable development of the Company. In 2009, MMK did not obtain any significant financial assistance from the government authorities. MMK, independently and as a participant of the Russkaya Stal Not-For-Profit Partnership that unites the largest Russian steel producers, takes part in the public appraisal of draft laws, and, first and foremost, tax and customs laws, the Civil Code, and the laws regulating production, logistics, scientific and technical, social and demographic policies of the State. Regular meetings are held with experts and senior officers of Federal Ministries. MMK's executives are invited to take part in discussions of legislative issues in the State Duma committees.

MMK's coordinates its operations with the authorities of the territories where the MMK Group is present. This refers, primarily, to the Chelyabinsk Region, and the Republic of Bashkortostan. One of the forms of cooperation between MMK and regional authorities is entering into agreements on social and economic cooperation. These agreements stipulate mutual obligations of the regions and the Company, with a focus on developing the social and economic infrastructure.

MMK's representatives take an active part in political life as deputies in representative bodies at various levels. In 2010, elections of deputies to the Municipal Assembly of Magnitogorsk and the Chelyabinsk Region Legislative Assembly were held. In the Municipal Assembly, 16 deputies not only represent their regions and their constituencies but also continue their work in MMK and its subsidiaries. In the Chelyabinsk Region Legislative Assembly MMK is represented by 8 deputies.

# ■ Information for Shareholders and Investors

## Information on Company Securities

### Ordinary Shares

OJSC MMK's shares are traded on the leading Russian stock markets (MICEX, RTS) and are listed on the London Stock Exchange.

Trading Platform	Issuer code
MICEX, Moscow	MAGN
RTS, Moscow	MAGN
LSE, London	MMK

On the London Stock Exchange MMK's shares are traded as Global Depository Receipts, GDRs, with 1 GDR corresponding to 13 shares. MMK's free float represents 12.7% of outstanding shares.

The Company's shares are included in the following indices:

Index	Date of inclusion
RTS Index	15.10.2007
MICEX Index	15.10.2007
RTS Metals and Mining Index	15.06.2007
MICEX Metals and Mining Index	14.08.2007
MICEX MC Index	06.08.2007
DAX Global Russia	24.09.2007
RDXxt	13.03.2008
FTSE Russia IOB Index	22.06.2009

## OJSC MMK Share Quotes and Trading Volumes on LSE (USD)

	Minimum	Maximum	End of the Period	Average Daily Trading Volume
2009	2.09	11.53	11.3	3,673,185
2010	8.79	15.19	14.55	5,892,020
Change, %	321%	32%	29%	60%



London  
STOCK EXCHANGE

EVENTS AFTER THE ACCOUNTING DATE



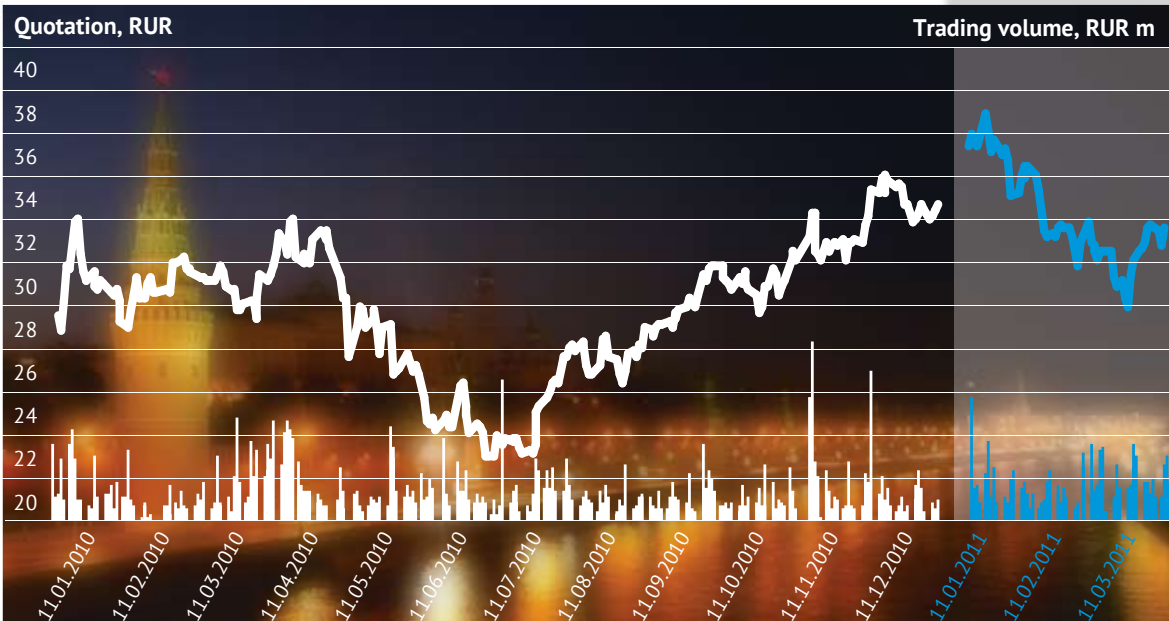
### OJSC MMK Share Quotes and Trading Volumes on MICEX (RUR)

Share Quotes on MICEX (in RUB)

	Minimum	Maximum	End of the Period	Average Daily Trading Volume
2009	5.03	27.19	25.03	43,155,031
2010	20.80	34.61	32.90	72,142,274
Change, %	314%	27%	31%	67%



EVENTS AFTER THE ACCOUNTING DATE



### OJSC MMK Shares Quotes and Trading Volumes at RTS (USD)

Share Quotes on RTS (in RUB)

	Minimum	Maximum	End of the Period	Average Daily Trading Volume
2009	0.15	0.89	0.85	3,180
2010	0.726	1.105	1.132	6,574
Change, %	384%	24%	33%	107%



EVENTS AFTER THE ACCOUNTING DATE



Supported by global economic recovery and progressively recovering demand for steel products that started in late 2009, investor demand for MMK shares increased in 2010. In June, share prices declined in line with lower prices for steel products as a result of lower export sales. During this period MMK continued to implement its strategy of expanding its exposure to the domestic market.

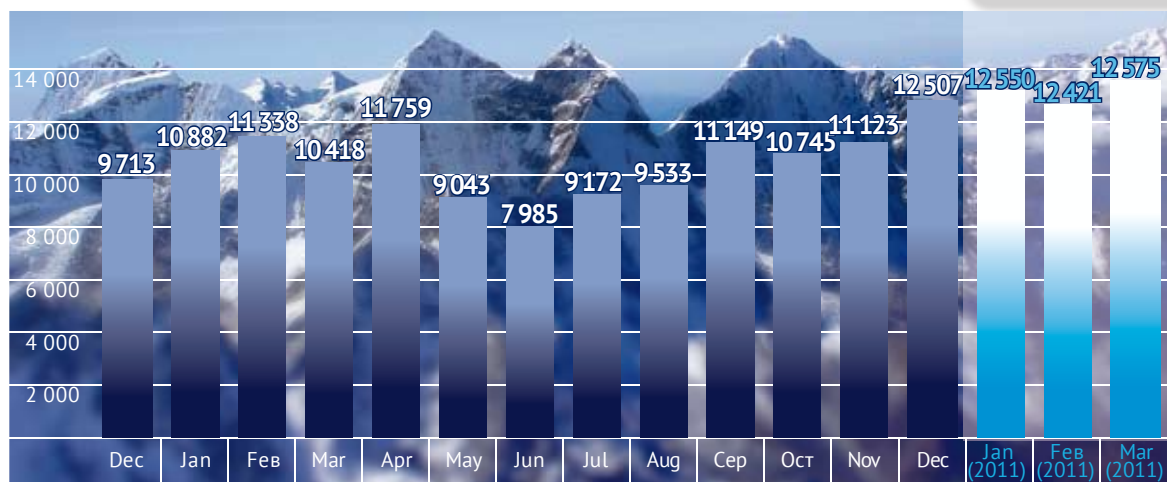
Steady growth in MMK's share price began in the third quarter of the year. This was driven by upgrades from leading analysts, many of whom recognized MMK's shares as the preferable means for gaining exposure to Russian iron and steel companies. One of MMK's key advantages is its increasing degree of integration into iron ore raw materials and coal and great potential for production growth. As of

31 December 2010, 12 of 17 analysts had a "Buy" recommendation on MMK shares. The target price rose by 15% (or USD 2.11) during the year, reaching USD 16.12 per GDR at the end of the year. In 2010, MMK's shares outperformed the market. The RTS index increased by 23%, while the price of MMK shares rose by 20%. On 31 December 2010 the closing price for MMK GDRs was USD 14.55.

The investor relations program implemented in 2010 has helped to improve liquidity compared to 2009. The average daily trading volume for the three stock markets (RTS, MICEX, LSE) was USD 8.1 million in 2010 (in 2009 the average daily trading volume was USD 4.9 million). About 75% of transactions with MMK shares/GDR stake place on the LSE.

### MMK's market cap in 2010, USD m

EVENTS AFTER THE ACCOUNTING DATE



\*The market capitalization is calculated on the basis of the closing price of the previous month's trading session.

In 2010, MMK's market capitalization increased by 29% to USD 12,507 million as of 31 December 2010, bringing MMK the closest to its historical maximum market cap among all publicly traded steel companies in Russia.

### Relations with Investors and Shareholders

One of the Company's priorities is to maintain strong relations with investors and shareholders through a direct dialogue and in line with existing legislation and globally accepted principles.

MMK's management has focused its efforts on being responsive to the interests of investors and shareholders, and establishing a relationship based on trust by improving transparency.

In keeping with the principle of transparency and accessibility of information, the Company publishes statements of significant events on the website of the London Stock Exchange, and also on its

own corporate site. The Company's official site has sections devoted to Investor Relations and Corporate Governance, which contain a wide array of information in Russian and English, including the Company's internal documents and bylaws, annual reports, information for shareholders' meetings, data on the Company's registrar and auditors, information on dividend payments, as well as quarterly financial statements under IFRS and RAS. The website also features a financial calendar with planned events and reporting dates.

More detailed information can be found on MMK's official site at: <http://www.mmk.ru> in the sections Investor Relations and Corporate Governance.

An effective dialogue with the capital markets requires constant attention from the Company's management. MMK management regularly participates in international conferences and meetings with investors. Publication of quarterly financial results always include telephone

conferences for investors with MMK management. Financial statements are supplemented with presentations for better insights into the results and the Company's strategy.

MMK is committed to continuously improving relations with investors and shareholders in line with market practice, the latest legislation and the best practice standards. Investors are invited to contact our Shareholders Relations and Investor Relations divisions with any questions:

Corporate Secretary:  
**Valentina Khavantseva**  
 Tel: +7 (3519) 24-72-29  
 Email: khavanceva.vn@mmk.ru

Investor Relations Dept,  
**Andrei Serov**  
 Tel: +7 (3519) 24-52-97. Fax: +7 (3519) 24-24-79. E-mail: serov.ae@mmk.ru

#### 2011 Financial Calendar\*

General Shareholders' Meetings	
20 January 2011	OJSC MMK Extraordinary General Shareholders' Meeting
20 May 2011	OJSC MMK Annual General Shareholders' Meeting
Board of Directors Meetings	
15 April 2011	OJSC MMK Board of Directors
July 2011	
September 2011	
Publication of RAS Financial Statements	
March 2011	IV quarter (12 months) of 2010
April 2011	I quarter (3 months) of 2011
August 2011	II quarter (6 months) of 2011
October 2011	III quarter (9 months) of 2011
Publication of IFRS Financial Statements	
April 2011	IV quarter (12 months) of 2010
June 2011	I quarter (3 months) of 2011
September 2011	II quarter (6 months) of 2011
November 2011	III quarter (9 months) of 2011
Publication of production results	
27 January 2011	IV quarter (12 months) of 2010
April 2011	I quarter (3 months) of 2011
July 2011	II quarter (6 months) of 2011
October 2011	III quarter (9 months) of 2011

\*dates are subject to change ([http://www.mmk.ru/for\\_investor/financial\\_calendar/](http://www.mmk.ru/for_investor/financial_calendar/))

## Report on Payment of Declared (Accrued) Dividends on OJSC MMK Shares

The total amount of dividend payments based on the results of 2010 will be RUB 3.6875289 bn.

MMK's dividend policy is based on a balance of shareholders' interests and the Company's requirements for further growth and technological upgrades.

The Regulations on the Dividend Policy can be found at the following address:  
[http://www.mmk.ru/corporate\\_governance/internal\\_documents/group\\_documents/](http://www.mmk.ru/corporate_governance/internal_documents/group_documents/)

Obligations to shareholders with regards to the payment of dividends are set forth in the Company's Charter.

### OJSC MMK Dividend Payments

Basis year for dividend accrual	Amount of dividends per share, RUB	Dividends accrued		Dividends to net profit*
2005	1.854	19,708,392.77	RUB '000	74%
		696,344.53	USD '000	
2006	3.209	34,112,381.11	RUB '000	90%
		1,287,696.70	USD '000	
2007	0.920	10,488,754.52	RUB '000	24%
		428,712.38	USD '000	
2008	0.382	4,268,594.06	RUB '000	16%
		173,891.90	USD '000	
2009	0.37	4,134,502.1	RUB '000	56%
		130,921.54	USD '000	
2010	0.33	3,687,528.90	RUB '000	48%
		121,420.12	USD '000	

\*2005-2007 under US GAAP, 2008-2010 under IFRS (Parent company shareholders' profit for the period).

# Open Joint Stock Company Magnitogorsk Iron & Steel Works And Subsidiaries

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2010, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

### In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

### Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group;
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were approved on 31 March 2011 by:



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O. V. Fedonin  
Vice-President Finance



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M. A. Zhemchueva  
Chief Accountant

31 March 2011  
Magnitogorsk, Russia

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010 (In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December	
		2010	2009
REVENUE	7	7,719	5,081
COST OF SALES	9	(5,952)	(3,940)
<b>GROSS PROFIT</b>		<b>1,767</b>	<b>1,141</b>
General and administrative expenses	10	(495)	(349)
Selling and distribution expenses	11	(565)	(429)
Other operating expenses, net	12	(97)	(51)
<b>OPERATING PROFIT</b>		<b>610</b>	<b>312</b>
Share of results of associates	18	11	(31)
Gain on revaluation of investment in associate upon acquisition of majority ownership	5	-	175
Finance income		8	20
Finance costs		(140)	(96)
Foreign exchange (loss)/gain, net		(24)	9
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	5	-	30
Change in net assets attributable to minority participants		(5)	6
Other income		7	2
Other expenses	13	(177)	(170)
<b>PROFIT BEFORE INCOME TAX</b>		<b>290</b>	<b>257</b>
INCOME TAX	14	(58)	(38)
<b>PROFIT FOR THE YEAR</b>		<b>232</b>	<b>219</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSSES)</b>			
Increase in fair value of available-for-sale investments		424	397
Income tax related to increase in fair value of available-for-sale investments		(85)	(79)
Translation of foreign operations		24	2
Effect of translation to presentation currency		(80)	(270)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<b>283</b>	<b>50</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>515</b>	<b>269</b>
Profit attributable to:			
Shareholders of the Parent Company		254	232
Non-controlling interests		(22)	(13)
		232	219
Total comprehensive income attributable to:			
Shareholders of the Parent Company		529	290
Non-controlling interests		(14)	(21)
		515	269
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.02	0.02
Weighted average number of ordinary shares outstanding (in thousands)		11,118,083	11,098,862

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

(IN MILLIONS OF U.S. DOLLARS)

	31 December	
	2010	2009
<b>ASSETS</b>		
NON-CURRENT ASSETS:		
Property, plant and equipment	12,226	11,292
Goodwill	290	292
Other intangible assets	34	37
Investments in securities and other financial assets	1,051	627
Investments in associates	29	22
Deferred tax assets	106	132
Other assets	17	17
Total non-current assets	13,753	12,419
CURRENT ASSETS:		
Inventories	1,236	958
Trade and other receivables	791	839
Investments in securities and other financial assets	193	221
Income tax receivable	37	12
Value added tax recoverable	213	235
Cash and cash equivalents	515	165
Total current assets	2,985	2,430
<b>TOTAL ASSETS</b>	<b>16,738</b>	<b>14,849</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2010

(IN MILLIONS OF U.S. DOLLARS)

	31 December	
	2010	2009
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY:</b>		
Share capital	386	386
Treasury shares	(176)	(67)
Share premium	1,109	1,103
Investments revaluation reserve	680	341
Translation reserve	(2,294)	(2,230)
Retained earnings	10,552	10,424
Equity attributable to shareholders of the Parent Company	10,257	9,957
Non-controlling interests	429	368
Total equity	10,686	10,325
<b>NON-CURRENT LIABILITIES:</b>		
Long-term borrowings	2,454	1,266
Obligations under finance leases	7	24
Retirement benefit obligations	25	19
Site restoration provision	18	16
Deferred tax liabilities	1,464	1,422
Total non-current liabilities	3,968	2,747
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings and current portion of long-term borrowings	1,074	808
Current portion of obligations under finance leases	13	20
Current portion of retirement benefit obligations	3	2
Trade and other payables	971	928
Net assets attributable to minority participants	23	19
Total current liabilities	2,084	1,777
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,738</b>	<b>14,849</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(In millions of U.S. Dollars)

	Notes	Share capital	Attributable to shareholders of the Parent Company	
			Treasury shares	Share premium
<b>BALANCE AT 1 JANUARY 2009</b>		<b>386</b>	<b>(72)</b>	<b>1,104</b>
Profit for the year		-	-	-
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	-	-
Purchase of treasury shares		-	(2)	-
Issuance of ordinary shares from treasury shares		-	7	(1)
Increase in non-controlling interests due to additional share issue by subsidiary	5	-	-	-
Increase in non-controlling interests due to acquisition of subsidiaries		-	-	-
<b>BALANCE AT 31 DECEMBER 2009</b>		<b>386</b>	<b>(67)</b>	<b>1,103</b>
Profit for the year		-	-	-
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	-	-
Purchase of treasury shares		-	(181)	-
Issuance of ordinary shares from treasury shares		-	72	6
Increase in non-controlling interests due to additional share issue by subsidiary	5	-	-	-
Decrease in non-controlling interests due to increase of Group's share in subsidiaries		-	-	-
Dividends	23	-	-	-
<b>BALANCE AT 31 DECEMBER 2010</b>		<b>386</b>	<b>(176)</b>	<b>1,109</b>

Attributable to shareholders of the Parent Company

	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
	<b>23</b>	<b>(1,970)</b>	<b>10,192</b>	<b>9,663</b>	<b>189</b>	<b>9,852</b>
	-	-	232	232	(13)	219
	318	(260)	-	58	(8)	50
	318	(260)	232	290	(21)	269
	-	-	-	(2)	-	(2)
	-	-	-	6	-	6
	-	-	-	-	47	47
	-	-	-	-	153	153
	<b>341</b>	<b>(2,230)</b>	<b>10,424</b>	<b>9,957</b>	<b>368</b>	<b>10,325</b>
	-	-	254	254	(22)	232
	339	(64)	-	275	8	283
	339	(64)	254	529	(14)	515
	-	-	-	(181)	-	(181)
	-	-	-	78	-	78
	-	-	-	-	81	81
	-	-	7	7	(6)	1
	-	-	(133)	(133)	-	(133)
	680	(2,294)	10,552	10,257	429	10,686

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(In millions of U.S. Dollars)

	Notes	Years ended 31 December	
		2010	2009
<b>OPERATING ACTIVITIES:</b>			
Profit for the year		232	219
Adjustments to profit for the year:			
Income tax		58	38
Depreciation and amortisation	9,10	826	735
Finance costs		140	96
Loss on disposal of property, plant and equipment	12	159	118
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	5	-	(30)
Change in allowance for doubtful accounts receivable	12,20	31	71
Recovery of bad debts acquired as a part of business combinatio		(16)	
Gain on revaluation and sale of trading securities	12,21	(52)	(113)
Change in allowance for obsolete and slow-moving items	19	(5)	11
Finance income		(8)	(20)
Foreign exchange loss/(gain), net		24	(9)
Gain on sale of disposal group	6	(33)	-
Share of results of associates	18	(11)	31
Gain on revaluation of investment in associate upon acquisition of			
majority ownership	5	-	(175)
Change in net assets attributable to minority participants		5	(6)
		1,350	966
Movements in working capital			
Decrease in trade and other receivables		40	113
Decrease in value added tax recoverable		20	28
(Increase)/decrease in inventories		(330)	138
Decrease in investments classified as trading securities		107	19
Increase/(derease) in trade and other payables		147	(425)
Cash generated from operations		1,334	9
Interest paid		(84)	(109)
Income tax (paid)/refunded		(77)	135
Net cash generated by operating activities		1,173	865

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(In millions of U.S. Dollars)

	Notes	Years ended 31 December	
		2010	2009
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(2,209)	(1,613)
Purchase of intangible assets		(10)	(11)
Proceeds from sale of property, plant and equipment		11	12
Acquisition of subsidiaries, net of cash acquired		-	(278)
Interest received			23
Purchase of securities and other financial assets		(42)	(8)
Proceeds from sale of disposal group	6	225	-
Proceeds from sale of securities and other financial assets		8	34
Net change in bank deposits		-	148
Dividends received from associate		4	4
Net cash used in investing activities		(2,005)	(1,689)
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		3,439	2,935
Repayments of borrowings		(2,024)	(2,974)
Proceeds from capital transactions of subsidiaries		80	47
Purchase of treasury shares		(181)	(2)
Proceeds from issuance of ordinary shares from treasury shares		78	6
Principal repayments of obligations under finance leases		(29)	(36)
Dividends paid to:			
equity holders of the Parent Company		(198)	(16)
- non-controlling interests		(2)	-
Net cash generated by/(used in) financing activities		1,163	(40)
<b>NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>331</b>	<b>(864)</b>
CASH AND CASH EQUIVALENTS, beginning of year		165	1,106
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		19	(77)
<b>CASH AND CASH EQUIVALENTS, end of year</b>		<b>515</b>	<b>165</b>

## Information on Companies in Which OJSC MMK Holds Less Than 50% of Shares

Legal status	Full company name (abbreviated company name)	Company's legal address	OJSC MMK's Share,%	Other Participants/ Shareholders	Remarks
CJSC	Magnitogorsk Mill Rolls Plant (ZAO MZPV)	93, Kirova str, Magnitogorsk, Russia, 455000	18.18	CJSC Mekhanoremont: 28,76% CJSC MRK: 4.06% VALI GROUP d.o.o.:49%	OJSC MMK's affiliate
LLC	Transportation and Forwarding Company of the Magnitogorsk Iron and Steel Works (OOO TEK MMK)	6, Office 803, Gertsena str, Magnitogorsk, Russia, 455001	16.72	CJSC Tamozhenny Broker: 81.62% LLC MiG: 1.66%	OJSC MMK's affiliate
LLC	Continental Hockey League (OOO KHL)	20, Bldg 2, Ovchinnikovskaya Naberezhnaya, Moscow, Russia, 115035	11.76	n/a	-
CJSC	Russkaya Metallurgicheskaya Kompaniya (ZAO RMK)	93, Kirova str, Magnitogorsk, Russia, 455002	10.0	n/a	-
CJSC	Yuzhuralavtoban (ZAO YUAB)	11, Frunze str, Magnitogorsk, Russia	10.0	n/a	-
OJSC	Yeisk Sea Port (OAO EMP)	5, Portovaya Alleya str, Yeisk	5.94	n/a	-
CJSC	METALLURGRANS (ZAO METALLURGRANS)	2, Slavyanskaya Ploschad, Moscow, Russia, 109718	5.47	n/a	-
	Fortescue Metals Group LTD	Level 2, 87 Adelaide Terrace, EAST PERTH, WA, AUSTRALIA, 6004	4.994	n/a	-
LLC	Ermak Urals District Television Company (OOO UOTK Ermak)	52, 2nd entrance, 2nd floor, Narodnoy Voli str, Yekaterinburg, 620026	2.0	n/a	-
OJSC	Beloretsk Iron And Steel Works (OAO BMK)	1, Blyukhera str, Beloretsk, Baskortostan, 453500	0.124	n/a	-
LLC	Astra-Metall Health Insurance Company (OOO SMK Astra-Metall)	1/2, Zavenyagina str, Magnitogorsk, Chelyabinsk Region, Russia, 455045	0.027	n/a	-
OJSC	Vladivostok Sea Trading Port (OAO VMTP)	9, Strelnikova str, Vladivostok, Primorsky Krai, Russia, 690950	0.0261	n/a	-

# Compliance of the MMK 2010 Annual Report with Standard & Poor's Information Transparency Criteria

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	44. Publication of unaudited IFRS/US GAAP financial statements by the end of April	not required.
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# Use of the GRI Reporting Framework Elements and Performance Indicators in the MMK 2010 Annual Report

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3.8	Basis for reporting on Companies of the OJSC MMK Group	30-31	
3.9	Data measurement and calculation methods	Annex 1	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	107	
3.11	Significant changes relative to previous accounting periods	107	
3.12	Table showing the position of GRI Reporting Framework elements in the report	100-105	
3.13	Policy and current practice with regard to seeking external assurance for the report.		MMK did not seek external assurance for the report
<b>4</b>	<b>Governance Structure and Relations with Interested Parties</b>		
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4.3	Number of independent members of the supreme governing body	58	
4.4	Instruments used by the company's shareholders or employees to influence the activity of the supreme governing body	79, 53	
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No.	Description	Pages	Comments
4.6	Actions of the supreme governing body intended to prevent conflicts of interests	Annex 2	
4.7	Assessment of qualification and competence of members of the supreme governing body	54	
4.8	Corporate statements about a mission or values, codes of corporate conduct and principles which are important in terms of economic, environmental and social performance	Annex 2	
4.9	Processes used by the supreme governing body to monitor how the Company assesses its performance	Annex 2, 26-27	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	61	
4.11	Environmental protection	73-77	
4.12	Principles and other initiatives developed by external companies which are supported or applied by the Company	73, 50-51, 97, 100	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations	81	
4.14	The list of interested parties with which the Company has relations	78-81	
4.15	Basis for the identification and selection of interested parties to establish relations with	MMK selects interested parties based on the experience of interacting with them	
4.16	Approaches to relations with interested parties including frequency of cooperation by forms and interested groups	78-81	
4.17	Key issues and interests raised or identified when establishing relations with interested parties	80-81	
<b>5 Information on Management Approaches and Performance Indicators</b>			
<b>Economic Performance Indicators</b>			
EC1	Generated and distributed direct economic value	39-45	
EC4	Significant financial assistance received from government.	In the reporting period MMK did not receive any financial assistance from the government	
EC5	Ratio of a wage paid at MMK and in Magnitogorsk	70	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	78	
EC7	Proportion of top management hired from local community	50% of the Board of Director's members and 90% of the Management Board members are local residents	
EC9	Review of significant indirect economic impacts	MMK does not monitor indirect economic impacts	
<b>Environmental Performance Indicators</b>			
EN1	Materials used	46-47	

No.	Description	Pages	Comments
EN2	Percentage of materials used that are recovered or reused	75-76	
EN3	Direct energy consumption by primary energy source.	72	
EN4	Indirect energy consumption by primary source.	73-74	
EN5	Energy saved as a result of activities aimed at decreasing energy consumption	77	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Rolled steel produced by MMK is not an energy-consuming product	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	77	
EN8	Total water withdrawal by source.	75	
EN9	Water sources significantly affected by withdrawal of water.	75	
EN10	Percentage and total volume of recycled and reused water	75, 73	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	MMK operations carried out in Magnitogorsk do not produce any significant effect on biodiversity in adjacent areas, or disturb any animals' habitats	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.		
EN13	Habitats protected or restored.		
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.		
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Areas affected by MMK's operations do not contain habitats of any endangered species	
EN16	Atmospheric hazardous emissions	75	
EN17	Other relevant indirect greenhouse gas emissions by weight.	MMK does not monitor greenhouse gas emission	
EN18	Decrease in atmospheric hazardous emissions and reductions achieved	77	
EN19	Emissions of ozone-depleting substances by weight.	MMK does not have any special monitoring or recording procedure for emissions of ozone depleting substance	
EN20	NO, SO, and other significant air emissions by type and weight.	73	
EN21	Total water discharge by quality and destination.	74	
EN22	Total weight of waste by type and disposal method.	74	

No.	Description	Pages	Comments
EN23	Total number and volume of significant spills.	MMK's operations do not entail a danger of any significant spills	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	74	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	MMK's operations in the Magnitogorsk area do not produce any significant effect on the biodiversity of water bodies	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	77	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	73	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Transportation of MMK's products and materials used in MMK's operations, does not produce any significant effect on the environment	
EN30	Total environmental protection expenditures	77	
<b>Social Performance Indicators</b>			
<b>Performance indicators for approaches to labour conditions</b>			
LA1	Total number of employees	70	
LA2	Total number and rate of employee turnover by age group, gender, and region.	70-71	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	All employees on MMK's staff schedule are provided with equal benefits	
LA4	Share of employees covered by the collective agreements	79	
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	There is no such minimum notice period at MMK	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	There is a working team comprising all the mentioned parties	
LA7	Rates of occupational accidents and diseases	71	

No.	Description	Pages	Comments
LA8	Available programmes for risk prevention and control regarding serious deceases for MMK's employees	71	
LA9	Health and safety topics covered in formal agreements with trade unions.	79	
LA10	Average hours of training per year per employee by employee category.	MMK does not keep such statistics	
LA11	Programmes for skills management and lifelong learning	70	
LA12	Percentage of employees receiving regular performance and career development reviews.	All MMK employees regularly receive performance reviews and are tested for occupational skills and expertise	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	71	
LA14	Ratio of basic salary of men to women by employee category.	MMK does not keep such statistics	
<b>Human Rights Performance Indicators</b>			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	In its activities MMK does not violate human rights or use any discriminating practices	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		
HR4	Total number of incidents of discrimination and actions taken.		
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	In its activities MMK makes no use of children's or forced labour	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.		
<b>Society Performance Indicators</b>			
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	MMK does not have any programs for assessing or managing the impacts of its operations on communities	
SO2	Percentage and total number of business units analyzed for risks related to corruption.	Each business process at MMK is analyzed for corruption-related risks	
SO5	Public policy positions and participation in public policy development and lobbying.	81	

No.	Description	Pages	Comments
<b>Product Responsibility Performance Indicators</b>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	MMK's finished products produce no effect on consumers' health or safety	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	All products shipped from MMK comply to standards and regulations	
PR3	Customer satisfaction	78	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	78-81	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	The subject of marketing communications was not identified as significant in the report content defining process	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.		
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	MMK received no such complaints	

# General Information on OJSC MMK

## Full Name of the Company:

- in Russian: Открытое акционерное общество «Магнитогорский металлургический комбинат»;
- in English: Open Joint Stock Company Magnitogorsk Iron & Steel Works.

## Abbreviated Name of the Company:

- in Russian: ОАО «ММК»;
- in English: OJSC MMK.

## State Registration Certificate

Certificate #0002 series GA (registration #186). Date of state registration: 17.10.1992.  
Certificate of Entry in the Uniform State Register of Legal Entities: series 74 # 000603904, OGRN 1027402166835, date of entry: August 12, 2002.

## The Company's location and postal address:

93, Kirova str., Magnitogorsk, Russia, 455000.  
Tel: 24 7292, 24 3004, Fax: 24 7309

## Communication and Public Relations:

Phone: (3519) 24 0302, fax: (3519) 24 8554, e-mail: [press@mmk.ru](mailto:press@mmk.ru)

## Website of the Company:

Web-site: <http://www.mmk.ru>

## Legal Status of the OJSC MMK

The Magnitogorsk Iron and Steel Works is an open joint stock company. According to the legislation of the Russian Federation, a joint stock company is an organization whose authorized capital is divided into a certain number of shares which certify rights of obligation of the company's members (shareholders) in relation to the company.

The shareholders are not responsible for the Company's obligations and bear the risk of losses in connection with the Company's activity to the extent of their shares' value.

The Company is a legal entity which owns separate property entered in the Company's independent balance sheet. The number of shareholders of the Company is not limited.

## Countries in Which the Organization Conducts its Business

OJSC MMK runs its operations in the Russian Federation (Magnitogorsk, Belovo, Bakal, St. Petersburg, Moscow) and the Republic of Turkey (Istanbul, Iskenderun). The Company's key suppliers are located in Russia and Kazakhstan. MMK sells its products to 70 countries worldwide. The key shipment destinations include CIS, the Middle East, Europe, and Asia.

# General Information on the Report

## Date of Publication of the Latest Previous Report

Annual reports of OJSC MMK are prepared annually pursuant to the Federal Law "On Joint-Stock Companies" # 208-FZ dd. 24.11.1995 as amended and supplemented. In addition to their being mandatory, the Company views annual reports as an instrument for enhancing the transparency of its operations.

The previous Annual Report of the OJSC MMK was prepared based of the 2009 results and approved by the Annual General Shareholders' Meeting on 21.05.2009. OJSC MMK's Annual Report 2009 is available for review at MMK's web site [www.mmk.ru/for\\_investor/annual\\_reports/](http://www.mmk.ru/for_investor/annual_reports/).

## Contact Details

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## Procedure for Determining Contents of the Annual Report

In the preparation of this Annual Report, MMK aimed to achieve the fullest possible disclosure of information related to all aspects of its operations in 2010. The Report includes the results of the Company's diverse activities (production, business, financial, social, environmental) of interest to all stakeholders. Stakeholders were identified through a comprehensive analysis of the Company's operations and the influence exerted by them on the social sphere and the environment.

As a result, top priority was assigned to the following subjects: production, finances, sales, relations with stakeholders, as well as the social and environmental activities of MMK. All the facts and events influencing the achievement of the Company's strategic goals were considered material.

In the preparation of this Report use was made of the Regulations on Sustainability and Reporting (GRI, version 3.0) in order to present the results of the Company's activities in the context of sustainability. All the information contained in the present Report is in line with the principles of GRI (relevance, party interest coverage, stable development context, completeness).

## Scope of the Report

The present Report has been prepared on the basis of the results of OJSC MMK's operations, as presented in accounting statements prepared according to the Russian Accounting Standards for the 2010 financial year, and consolidated accounting statements of the MMK Group prepared according to IFRS. This Report can be regarded as a report on the entire MMK Group.

## Limitations Regarding the Scope of the Report

This Report provides a complete picture of MMK's operations, and any further expansion of the Report is possible only in terms of increasing the number of performance indicators, should such interest be expressed by users of the Company's information.

## Influence on the Comparability of the Report

This Report includes information on the MMK Group's operation results and is therefore comparable to the reports of OJSC MMK and the MMK Group for previous periods.

## Material Changes in the Report

This Report does not contain any material changes compared to the information provided in previous reports, nor any changes in relation to previous periods in terms of the content, scope or measurement of OJSC MMK's results.

V. Rashnikov, President of LLC MMK Managing Company



M. Zhemchueva, Chief Accountant, OJSC MMK





22.07.2011 close **11.56** ▲ +0.52%  
MMK on LSE, US\$  
Volume: 345,133.80, min: 9.037  
All Quotes ▶

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RUSSIAN

## Investment Leadership

Investments in high-quality assets and highly profitable projects.  
Modern assets/ base.  
Increased presence in the high-growth markets of Russia and Turkey.  
Focus on premium quality hot-rolled products.  
Rapid substitution to enhance domestic markets exposure.



**High Performance**  
Efficiency driven  
business model



**Investment Leadership**  
Modern assets/ base



**Social Responsibility**  
Environmental, labor and  
local-comm. activities

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16.07.2011

### MMK COMPLETE CONSTRUCTION OF MMK-ATKAS METALWORKS

Commissioning of continuous hot-dip galvanizing unit at 3000-t/annum installed site marks final stage of project.

[More >](#)

16.07.2011

### MMK LAUNCHES MILL 2000 - FIRST STAGE OF NEW COLD ROLLING COMPLEX

Magnitogorsk Iron and Steel Works (MMK) launched its 200,000-t/annum first stage of a new cold rolling complex - during Russian Prime Minister Vladimir Putin's visit to MMK today, 16.07.2011, with 2 mpa capacity of finished products, will primarily produce high-quality cold-rolled and galvanized steel to be used in the production of exterior and interior car

### Investors

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